

**Exploring the evolution of external auditing in corporate governance and its
role in curbing corruption in the South African public sector**

by

Asanda Mbengo

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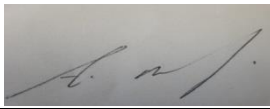
Supervisor: Laurene Ferreira

Co-supervisor: Magdalena Germishuyse

6 August 2024

DECLARATION

I, *Asanda Mbengo*, Student number: *45050716*, registered for a *Master of Philosophy in Accounting Science* degree, declare that *Exploring the evolution of external auditing in corporate governance and its role in curbing corruption in the South African public sector* is my own work, and that all the sources that I have used or quoted have been indicated and acknowledged by means of complete references. I further declare that I submitted the dissertation to originality check software and that it falls within the accepted requirements for originality. I further declare that I have not previously submitted this work, or part of it, for examination at Unisa for another qualification or at any other higher education institution.



SIGNATURE

06 August 2024

DATE

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This dissertation is dedicated to Mzolisa Benjamin Mbengo, Nosizwe Felicia Mbengo, and Vuyiswa Florence Mbengo for their discipline and instilling the value of education in me. I also acknowledge the life of Henry Cawe Mbengo, which was the beginning of my life as well.

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ABSTRACT

This research explored how external auditing evolved in corporate governance to curb corruption in South African public sector from 2018 to 2022. The research commences by providing an understanding of corporate governance. The research further explores the evolution of external auditing as a component of corporate governance and discusses the audit expectation gap concept. The research identifies the Public Audit Amendment Act No. 5 of 2018 as a development occurring in external auditing legislation in South Africa from 2018 to 2022. This development is explored to determine how it contributed towards curbing corruption and addressing the audit expectation gap from 2018 to 2022. The research is a qualitative study framed in the critical theory paradigm using documentary analysis. The research finds a link between corruption and material irregularities issued by the Auditor General of South Africa and concludes that effective resolution of these material irregularities helps in curbing corruption in the public sector.

**Ukuphicotha ukuvela kophicothozincwadi lwangaphandle kulawulo
lwamaqumrhu kunye nendima yalo ekuthinteleni urhwaphilizo kwicandelo
likarhulumente woMzantsi Afrika**

Olu phando luphicothe indlela uphicothozincwadi lwangaphandle oluye lwavela ngayo kulawulo lwamaqumrhu ukunqanda urhwaphilizo kwicandelo likarhulumente woMzantsi Afrika ukusuka kumnyaka wama2018 ukuya kowama2022. Olu phando luqala ngokubonelela ngokuqonda ulawulo lwamaqumrhu. Olu phando luphinda luphicothe ukuvela kophicothozincwadi lwangaphandle njengenxalenye yolawulo lwamaqumrhu kwaye luxoxa ngengcamango yomsantsa olindeleke kuphicothozincwadi. Olu phando luchonga uMthethosihlomelo woPhicothozincwadi zikaRhulumente nombolo wesi 5 womnyaka wama2018 njengophuhliso olwenzeka kumthetho wophicothozincwadi lwangaphandle eMzantsi Afrika ukusuka kumnyaka wama2018 ukuya kowama2022. Olu phuhliso luphicothwa ukuze kubonwe ukuba lube negalelo njani ekuthinteleni urhwaphilizo kunye nokulungisa umsantsa olindeleke kuphicothozincwadi ukusuka kumnyaka wama2018 ukuya kutsho kowama2022. Olu luphandontyilazwi olusekelwe kwisikhokelo sengcingane yohlalutyo kusetyenziswa uhlalutyo lwamaxwebhu. Olu phando lufumanisa kukho unxibelelwano phakathi korhwaphilizo kunye nobugwenxa kwizixhobo ezikhutshwa nguMphicothozincwadi Jikelele woMzantsi Afrika kwaye lugqibe kwelokuba isisombululo esisebenzayo sobu bugwenxa bezixhobo sinceka ekuthinteleni urhwaphilizo kwicandelo likarhulumente.

Ho hlahloba tswelopele ya bohlahlobi bakantle ho puso ya koporasi le karolo ya yona ho thibela bobodu lekaleng la setjhaba la Afrika Borwa.

Patlisiso ena e ile ya batlisisa ka moo hlahlobo ya kantle e bileng teng pusong ya koporasi ho thibela bobodu lekaleng la setjhaba la Afrika Borwa ho tloha ka 2018 ho ya ho 2022. Patlisiso e qala ka ho fana ka kutlwisiso ya puso ya koporasi. Patlisiso e tswela pele ho hlahloba tswelopele ya hlahlobo ya kantle ho naha e le karolo ya puso ya koporasi mme e tshohla mohopolo wa lekgalo la tebello ya hlahlobo. Patlisiso e supa Sehlomathiso sa Molao wa hlahlobo ya Setjhaba wa nomoro ya 5 wa 2018 e le ntshetsopele e hlahang molaong wa bohlahlobi bakantle ho naha ya Afrika Borwa ho tloha ka 2018 ho isa ho 2022. Ntshetsopele ena e hlahlojwa ho bona hore na e kentse letsoho jwang phokotsong ya bobodu le horarolla lekgalo la tebello ya sekgeo ho tloha ka 2018 hofihlela 2022. Patlisiso ke phuputso ya boleng e thehilweng hodima pharadaeme ya teori e sebediswang ka tshekatsheko ya ditokomane. Patlisiso e fumana kamano pakeng tsa bobodu le tshebediso e fosahetseng ya thepa tse ntshitsweng ke Mohlakisi Kakaretso wa Afrika Borwa mme e phethela ka hore tharollo e sebetsang ya ditlolo tsena tsa molao e thusa ho thibela bobodu lekaleng la mmuso.

KEY TERMS:

Auditing, Combined assurance services, Corporate governance, Corporate governance theories, Corruption, Critical theory, Documentary analysis, Expectation gap, King Code, Occupational fraud, Public Audit Act Amendment, Supreme Audit Institution models.

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LIST OF ABBREVIATIONS

AA	Accounting Authority
ACFE	Association of Certified Fraud Examiners
AGSA	Auditor General of South Africa
AO	Accounting Officer
APA	Audit Profession Act No. 26 of 2005
CAATs	Computer Assisted Audit Techniques
CAS RERC	College of Accounting Science Research Ethics Review Committee
CoD	Certificate of Debt
CW	Corruption Watch
HAWKS	Directorate for Priority Crime Investigation
IAASB	International Auditing and Assurance Standards Board
IFAC	International Federation of Accountants
INTOSAI	International Organisation of Supreme Audit Institutions
IoDSA	Institute of Directors South Africa
IRBA	Independent Regulatory Board of Auditors
ISA	International Standards on Auditing
ISSAI	International Standards of Supreme Audit Institutions
MI	Material Irregularity
MIs Report	Material Irregularities Report in National, Provincial Government and Public Entities
MIR	Material Irregularities Regulation of 2019
NPA	National Prosecuting Authority
PAA	Public Audit Act No. 25 of 2004
PAAA	Public Audit Amendment Act No. 5 of 2018
PAAB	Public Accountants' and Auditors' Board
PAC	Public Accounts Committee
PFMA	Public Finance Management Act No. 1 of 1999
PFMA Report	Consolidated General Report on National and Provincial Audit Outcomes
PPC	Procurement and payment category
PPC1	Payment for goods or services not received or of poor quality or

	not in line with contract or to illegitimate beneficiaries occurred the most amongst the three subcategories of procurement and payment category
PPC2	Non-compliance in procurement processes resulting in overpricing of goods and services procured or appointment of suppliers not delivering
PPC3	Uneconomical procurement resulting in overpricing of goods and services procured
PRECCA	Prevention and Combating of Corrupt Activities Act No. 12 of 2004
PwC	PriceWaterhouseCoopers
RSA	Republic of South Africa
SAI	Supreme Audit Institution
SAPS	South African Police Services
SCOAG	Standing Committee on the Auditor-General
SCOPA	Standing Committee on Public Accounts
SIU	Special Investigating Unit
TI	Transparency International
UNISA	University of South Africa
UNCAC	United Nations Convention against Corruption
UNODC	United Nations Office on Drug and Crime

CHAPTER 1 - RATIONALE AND OVERVIEW OF THE RESEARCH

1.1 INTRODUCTION

Over the years, external auditing has become part of corporate governance mechanisms that facilitate transparency, fairness, and accountability in economic sectors. Corporate governance is designed to address various issues that affect organisations and their stakeholders. Corruption is one of these issues. This research explores how external auditing evolved in corporate governance. The aim is to understand corporate governance with external auditing as its component, and to explore how external auditing helps to curb corruption and address the audit expectation gap in the South African public sector. This chapter provides the background of the research, followed by the rationale of the research. After that, the problem statement of the research is presented, and the research aim and objectives are formulated. The chapter also sets out the delineation and limitations of the research. The research design and methodology to answer the research questions is presented with the ethical requirements. Finally, the significance of the research is discussed.

1.2 BACKGROUND

1.2.1 Global Issue of Corruption

The City of Glasgow Bank, McKesson & Robbins, Steinhoff, Voltabox, VBS Mutual Bank, Linkway Trading, Enron, Worldcom, Marcani, Royal Ahold, Parmalat, AWA, Carillion, BHS, Toshiba, and the South African State Capture stories are a few scandals that highlight the state of financial affairs around the globe (Bello, 2012:12; Mamun, Yasser & Rahman, 2013:37; SABC News, 2017; eNCA, 2018; Quick, 2020:5; Budiarto, 2022:48; Zondo, 2022:i). In most of the scandals cited above occupation fraud was committed by those responsible for managing the organisations (Bello, 2012:12; Mamun *et al.*, 2013:37; SABC News, 2017; eNCA, 2018; Quick, 2020:5; Budiarto, 2022:48; Zondo, 2022:i). The Association of Certified Fraud Examiners (ACFE), the world's largest anti-fraud

organisation for professionals responsible for examining fraud, defines occupational fraud as the utilisation of one's employment position for his or her own personal enrichment through intentional abuse of his or her employer's property (ACFE, 2020:86).

Occupational fraud is classified into three categories, namely: financial statement fraud, asset misappropriation, and corruption (Carroll, 2015:4-5; ACFE, 2022:9). Financial statement fraud is defined as dishonest conduct of employees where they intentionally cause misstatements or omissions of a material nature in financial reports of the organisations they serve (ACFE, 2022:9). Misappropriation of assets occurs when the employer's wealth is stolen or misused by its employees (ACFE, 2020:86). The ACFE (2020:86) declares that corruption occurs when an employee of an organisation misuses its resources for personal benefit. The ACFE (2022:9) found that the main occupational fraud type that occurred most frequent around the globe was asset misappropriation followed by corruption. Asset misappropriation was found to cause the lowest financial damages, while financial statement fraud caused the highest financial damages (ACFE, 2022:9). Occupational fraud definitions presented herein do not necessarily prescribe legal offenses in South Africa, however legal statutes encapsulate these definitions when defining acts of fraud and corruption as prescribed by the United Nation Convention against Corruption (UNCAC) (United Nations Office on Drugs and Crime (UNODC), 2004:iii). For example Section 3 of the Prevention and Combating of Corrupt Activities Act No. 12 of 2004 provides the relevant definition of corruption used within the country (South African Government (RSA), 2004a:s3).

This research discusses corruption as it is the type of occupational fraud relevant to the research. Academic literature define corruption as the abuse of public office, or private position, authority, trust, power, or resources for private benefit or to gain personal advantage at the expense of the organisation represented by the perpetrator (Dye & Stapenhurst, 1998:2; Amundsen, 1999:4; Gustavson & Sundström, 2018:1508; Farooq & Shehata, 2018:268; Jeppesen, 2019:2; Lino,

De Azevedo, De Aquino & Steccolini, 2022:2; Shore, 2021:95; Mlambo, Mphurpi & Makgoba, 2023:38). Acts of corruption include amongst others bribery, extortion, embezzlement, misappropriation of property, trading in influence, abuse of function, nepotism, illicit enrichment, concealment, obstruction of justice and participation and attempt (UNODC, 2004:17-22; Nelje & Claesson, 2014:3; International Organisation of Supreme Audit Institutions (INTOSAI), 2019d:10; Mlambo *et al.*, 2023:38).

Global trends of corruption reveal that corruption thrives in countries where public officials and private actors are unlikely to be sanctioned (TI, 2023:9). Further, declining levels of rule of law negatively affect measures to eradicate corruption; on the other hand, corruption contributes to the erosion of justice by restricting access and threatening the basic principles of equality before the law (TI, 2023:9). Corruption often results in discrimination (TI, 2023:9).

Transparency International (TI), an international organisation that assesses perceived levels of corruption in the public sector in countries around the world, in its 2023 Corruption Perception Index report found that corruption was characterised by weakened political integrity and dilapidating checks and balance in the Western Europe and European Union regions (TI, 2023:13). The Eastern Europe and Central Asia corruption was due to dysfunctional rule of law, rising authoritarianism and systematic corruption (TI, 2023:13). The Asian Pacific region was dominated by countries backsliding in their corruption fighting efforts. America was found to lack judicial independence and had weak rule of law (TI, 2023:13). The Middle East and North Africa region was struggling with ongoing struggles with political corruption (TI, 2023:13). Examples of countries with rampant corrupt activities around the globe include North Macedonia where Parliament in September 2023 significantly undermined the rule of law by amending criminal code to reduce prison sentence for the abuse of position (TI, 2023:11). Venezuela, where billions of dollars were embezzled benefiting the few powerful elite exacerbating poverty and equality and Poland where government disempowered the judiciary and eroded rule of law by allowing the politicians to

appoint court officials as well as investigate and punish judges (TI, 2023:11).

PriceWaterhouseCoopers (PwC) in its 2022 Global Economic Crime and Fraud Survey discovered that from 2018 overall fraud, corruption and economic crime rates showed no increase (PwC, 2022:3). The survey revealed that the impact of these irregularities was substantial (PwC, 2022:3). According to PwC survey this resulted from organisations efforts of enhancing technical capabilities and stronger controls (PwC, 2022:5). PwC (2022:6) found that cybercrime is the leading type of fraud around the globe. Furthermore, fraud, corruption and economic crime was committed the most by those outside the organisation followed by internal parties and the least of perpetrators within the organisation colluded with external parties (PwC, 2022:5). The global cost of occupational fraud was estimated by ACFE (2022:4) to be approximately \$3.6 Billion with an average loss per reported case of \$1,783,000. The ACFE (2022:18) also found that occupational fraud from the period starting in 2012 to 2022 was detected faster and caused smaller losses with fewer organisations pursuing criminal prosecutions while more were pursuing civic actions against perpetrators. The ACFE (2022:39) corroborates PwC's findings when it found that most organisations improved anti-fraud controls to reduce occupational fraud. Lastly, the ACFE (2022:4) found that corruption was the most common scheme around the globe.

1.2.2 A broad overview of corruption within South Africa

South Africa as a member of United Nations is part of the countries that adopted the United Nations Convention against Corruption (UNCAC) to send a clear message that it is determined to prevent and control corruption (UNODC, 2004:iii). The UNCAC prescribes that each State Member must take preventive measures to fight corruption in both the private and public sector (UNODC, 2004:9). In these endeavors the UNCAC requires that each State Member to criminalise intentional corrupt conduct (UNODC, 2004:17). As a result South African government enacted the Prevention and Combating of Corrupt Activities Act No. 12 of 2004 (PRECCA) to fulfill the prescripts of the UNCAC. PRECCA

generally defines corruption as criminal conduct performed by anyone who indirectly or directly benefits or helps another person benefit by performing or not performing what the person is obligated or prohibited to perform, amounting to a breach of a lawful duty, position or authority abuse, and violation of trust (RSA, 2004a:s3, UNODC, 2004:17). The PRECCA classifies corrupt offences into five classes in Part 1 to Part of the Act (RSA, 2004a). South Africa form part of the Sub-Saharan African regions which is characterised by countries experiencing stagnant corruption efforts leading to poor performance (TI, 2023:18). Furthermore, although the Sub-Saharan region is made up of countries who are State Members to the UNCAC impunity of public actors, a weakened civic space and public access to justice and information continues to be critical issues that threaten the rule of law within the region (TI, 2023:18).

The Judicial Commission of Inquiry into State Capture which chaired by Justice Zondo established pursuant to remedial action taken by then Public Protector, Adv Mandonsela with responsibility of investigating the then President of the Republic of South Africa, President Zuma, South African Public Entities and related companies provides a broad overview of corruption in South Africa (Zondo, 2022:i). The corruption addressed by the commission included amongst others breach of the Executive Members Ethics Act, 1998, (Zondo, 2022:ii) and awarding of contracts by certain organs of state to entities linked to the Gupta family (Zondo, 2022:iii). In South Africa corruption straddles both the public and private sector (CW, 2022:1). South African Police Services (SAPS) in its 2022 Police Recorded Crime Statistics find that commercial crimes were on the rise (SAPS, 2022:86). Across the board fraud, abuse of authority, maladministration, bribery and extortion and procurement irregularities are prevalent (Corruption Watch (CW), 2022:1). These corruption acts were also found to occur the most in policing, education and construction sectors consecutively (CW, 2022:2).

1.2.3 Fraud and corruption within the South African public sector

South Africa was rated with a rating score of 44 which was below average by the Transparency International in 2021 Corruption Index indicating that corruption in

the country was a serious concern (TI, 2021:2). This rate declined in 2023 to 41 to further indicate that the problem was worsening (TI, 2023:2). Furthermore, a report issued by CW reported that South Africa recorded the second highest number of corruption reports within a calendar year in 2020 compared to prior years (CW, 2020:14). Moreover, The CW in its 2022 Analysis of Corruption Trends report found that abuse of authority and bribery are the main types of corruption that occur the most in the public sector followed by procurement irregularities and derelict of duty (CW, 2022:1). In the public sector corruption is most prevalent in police, education and in state-owned enterprises (CW, 2022:2). Hotspot areas also include housing, healthcare and traffic licensing on this list (CW, 2022:6). The majority of corruption reported to the CW was from national government, followed by local government while provincial government reported lesser reports than both national and local spheres of government (CW, 2022:3). Procurement irregularities were leading corruption types in four provinces (CW, 2022:7). Procurement irregularities are also occurring the most in construction and healthcare in the public sector (CW, 2022:9). Bribery or extortion and derelict of duty are both occurring the most in two provinces and abuse of power occurs the most in only one province (CW, 2022:7). These reports indicate the need to address corruption within the Republic of South Africa.

1.2.4 The role of external auditing in preventing and detecting corruption

The scandals and statics presented in different corruption related reports have led some researchers to question external auditing practices (Bello, 2012:10; Mennicken & Power, 2013:319; Agyemang, Bin Bardai & Ntoah-Boadi, 2020:20). The question arises as to how such incidences could occur right under the watch of external auditors (Bello, 2012:10; Mennicken & Power, 2013:319; Agyemang *et al.*, 2020:20). This negative perception is considered when exploring the external auditor's role in corporate governance systems (Newman, Patterson & Smith, 2005; Sikka, 2017; Coffee, 2019; Jeppesen, 2019). External auditing is perceived as a corporate governance monitoring mechanism that provides

financial transparency, improves accountability, and enhances the integrity of reported information (Ashbaugh & Warfield, 2003:3; Institute of Directors South Africa (IoDSA), 2016:68; Cicek & Dikmen, 2021:8). Therefore, external auditing practices are questioned when such scandals happen and are not detected when external audits are conducted.

External auditing is defined as the use of applicable auditing standards to examine or investigate audit evidence aiming at conveying an audit opinion on the annual financial statements (Imhoff, 2003:4; Arens, Elders & Beasley, 2014:24; INTOSAI, 2019b:8). The international professional standards for performing audits of financial information elucidate the position of external auditors with regards to financial scandals in International Standards on Auditing (ISA) 240. This standard is incorporated into the International Standards of Supreme Audit Institutions (ISSAI) 1240 -*The auditor's responsibilities relating to fraud in an audit of financial statements* (INTOSAI, 2019a:8, INTOSAI, 2019c:12; International Federation of Accountants (IFAC), 2022:168). The ISAs are issued by the IFAC which is the global organisation regulating the accountancy profession around the world (IFAC, 2022:4). According to ISA 240 the main objective of the external auditor is to provide reasonable assurance whether the annual financial statements are free of material misstatements caused by error or fraud, and communicate findings to appropriate personnel within the audited organisation and external stakeholders where applicable in accordance with auditing standards and legal requirements (INTOSAI, 2019:b:8; Salur, 2020:262; IFAC, 2022:175).

In terms of ISA 240, it should be noted that external auditing is not responsible for fraud prevention and detection, but is an assurance activity aiming at improving the confidence levels of those relying on the audited financial statements (Puttick, Van Esch & Kana, 2007:62; INTOSAI, 2019a:8; IFAC, 2021:51). External auditing is endorsed as a trust engendering mechanism to convince the civic community that organisations are not corruptly managed and are directed to promoting accountability; hence it forms part of corporate governance (Sikka, 2017:1).

External auditing is an integral part of a nation's system of integrity that can help to mitigate the risk of corruption (Jeppesen, 2019:1). However, an expectation gap exists between the users of financial information and the duties of the auditors as prescribed by the auditing standards (Quick, 2020:6).

The Auditing Professions Act No. 26 of 2005 and the Public Audit Act No. 25 of 2004 (PAA) as amended by the Public Audit Amendment Act No. 5 of 2018 (PAAA) make provisions for external auditors to report irregularities identified during their audits (RSA, 2004b:s5; RSA, 2005:s45; RSA, 2018:s5). These legislative prescripts are in accordance with ISSAI 200 – *Financial Audit Principles*, and ISSAI 1240, and Guid 2900 – *Guidance to financial auditing* (INTOSAI, 2019b:18; INTOSAI, 2019c:16; INTOSAI, 2021:26). These reportable irregularities include amongst others unlawful acts or omissions that are fraudulent or amount to thievery and abuse identified during the audit conducted in accordance with ISAs and ISSAIs (RSA, 2004b:s1; RSA, 2005:s1; RSA, 2018:s1; INTOSAI, 2019c:13). Therefore, the auditor has certain duties in reporting corruption that would be classified as a material irregularity (MI), this is substantiated in section that defines MI and links it with corruption.

External auditing by itself cannot curb fraud and corruption but performs a significant function in corporate governance (IoDSA, 2016:68; Jeppesen, 2019:9). External auditing forms part of what is termed “combined assurance” by the King Committee in its report issued in 2016 on corporate governance (IoDSA, 2016:68). The King Committee recommends that governing bodies should make sure that assurance services are functioning adequately and are coordinated to facilitate an effective control environment (IoDSA, 2016:68). This environment enables external auditing to contribute effectively towards curbing corruption (Olken, 2007:202; Nelje & Claesson, 2014:39; Nzewi & Musokeru, 2014:51; Avis, Ferraz & Finan, 2018:1914; Jeppesen, 2019:9; Lino *et al.*, 2022:17; Alkaster, 2020:41; Matlala & Uwizeyimana, 2020:5). External auditing as a corporate governance mechanism may detect occupational fraud, and was the second most used anti-fraud control within the Sub-Saharan Africa region (ACFE,

2022:81). Although PriceWaterhouseCoopers (2022:6) one of the leading global Accounting firm in its 2022 Global Economic Crime and Fraud Survey found that internal controls played a major role in exposing fraud.

1.2.5 Corporate governance

Corporate governance is the “exercise of ethical and effective leadership by the governing body towards the achievement of ethical culture, good performance, effective control and legitimacy” (IoDSA, 2016:20). Corporate governance depicts all the authorities, powers and pressures that have an impact on the organisational processes, embracing those for selecting the controllers and/or regulators engaged in creating value in supply chain process (Turnbull, 1997:181; Najamuddin, Larswati, Arifin, Meidawati & Kholid, 2022:240; Hashim, Jasim & Rabeea, 2022:73). Corporate governance comprises of rules, regulations, procedures and processes which facilitate good working relations between all organisation’s stakeholders (INTOSAI, 2019d:17; Salur, 2020:258; Kowala & Šebestová, 2021:10; Hashim *et al.*, 2022:73; Najamuddin *et al.*, 2022:240). In other words, corporate governance is a type of management philosophy aiming at offsetting the roles of corporate management. It safeguards the interests of all stakeholders associated with the operations of an organisation (Demb & Neubauer, 1992:9; Aktan, 2013:150; Bravo-Urquiza & Moreno-Ureba, 2021:3; Najamuddin *et al.*, 2022:240).

Corporate governance is designed to minimise agency costs (Jensen & Meckling, 1976:6; Mamun *et al.*, 2013:38), maximise production, increase principal wealth, and build long-term relationships with stakeholders (Abid, Khan, Rafiq & Ahmed, 2014:172-173). These are achieved through control-orientated, involvement-oriented, and trust management philosophies enshrined in corporate governance (Abid *et al.*, 2014:172-173). External auditing forms part of many corporate governance codes because of its significant contribution towards good governance (Turnbull, 1997; Abdullah & Valentine, 2009; Mamun *et al.*, 2013; Abid *et al.*, 2014; Salur, 2020; Bravo-Uquiza & Morno-Ureba, 2021). The research discusses corporate governance considering agency, stewardship and

stakeholder theories that are considered to be its foundation.

1.2.5.1 Corporate governance in the public sector

Good corporate governance in the public sector is characterised by competent public management capable of performing its duties honestly, transparently, equitably, accountably and responsively towards satisfying the needs of the citizens (INTOSAI, 2019d:7). In South Africa's public sector the Constitution which is the supreme law of the country sets governance principles in section 195 (RSA, 1996a:s195). This Constitutional provision enables government institutions to exercise effective and ethical leadership striving for good governance (IoDSA, 2016:20). In addition to the Constitutional prescripts, legal frameworks like the Public Services Act No. 103 of 1994 and the Public Finance Management Act No. 1 of 1999 (PFMA) are designed to further governance aims assisted by the King Code which applies to all sectors in South Africa (RSA, 1994b; RSA, 1999; Barrett, 2002:2; IoDSA, 2016:76).

1.3 RATIONALE OF THE RESEARCH

In South Africa, legislative developments resulting from amendments made by the legislature on existing laws regulating external auditing practices in both the private and the public sector may contribute to the importance of external auditing in curbing corruption. The research focuses on the Public Audit Amendment Act No. 5 of 2018 as the legislative development that has occurred in the South African public sector auditing environment. In South Africa studies have been conducted to determine the constitutionality of the PAAA, its potential impact on the effectiveness of the Auditor General South Africa (AGSA), the influence it has on public institutions, its impact on accountability, oversight and governance (Mathiba & Lefenya, 2019; Deliwe, 2019; Alakstar, 2020; Nicol, 2020; Matlala & Uwizeyimana, 2020; Gasela, 2022). Further, research has also examined the drivers and impact of corruption (Mlambo, Mphurphi & Makgoba 2023), but none has attempted to understand and describe the impact of the PAAA in curbing corruption in the public sector.

Prior to the amendment of the PAA the following deficiencies were identified by South African researchers in AGSA audits. Researchers found that people were not held criminal liable for findings identified and reported by the Auditor General of South Africa (AGSA) (Olken, 2007:1). Other law enforcement agencies did not provide continuous support to the AGSA to fight corruption in its audits (Nzewi & Musokeru, 2014:51). Further, it appears as if there was no political and administrative will to correct abnormalities through the implementation of the AGSA recommendations (Nzewi & Musokeru, 2014:43; Deliwe, 2019:54; Matlala & Uwizeyimana, 2020:5). Lastly, the state was unable to collect funds lost due to occurrence of audit findings (Mathiba & Lefenya, 2019:540).

In 2018, the PAAA was enacted and came into effect on the 1st of April 2019, and was implemented or put into practice in audits conducted after this date, which, among other things, made provisions for the AGSA to refer MIs to investigative bodies, take binding remedial actions when its recommendations are not implemented, and recover losses suffered by the state through the issue of Certificates of Debt (CoD) (RSA, 2004b:s5; RSA, 2018:s3; Makwetu, 2019:1). Therefore, the research focuses on the audit periods commencing in 2019 when the PAAA was implemented. The PAAA contributes towards establishing and maintaining a corporate culture driven by ethical leadership able to recognise risk and take actions that lead to success (Bello, 2012:15). In this instance, external auditing is relied upon as a tool to deter corruption (Bello, 2012:15). The PAAA implementation increases transparency, and encourages openness resulting in the deterrence of corruption (Nelje & Claesson, 2014:4). Makwetu (2019:1) highlighted that ever since 2016, AGSA has reported the extent of growing irregular, unauthorised, fruitless, and wasteful expenditure to relevant Parliamentary bodies that supervise AGSA. This reporting resulted in the extension of the AGSA's scope of engagement as reflected in section five of the PAA (RSA, 2004b:s5; RSA, 2018:s3).

The aims of the amendment are realised when the AGSA receives full and unmitigated support from law enforcement agencies, the legislature and

executive authorities (Deliwe, 2019:47). The AGSA is also able to recover losses incurred due to MIs (Lefenya, 2019:540). Effective methods of dealing with corruption were made available when the PAAA was enacted (Makwetu, 2019:1). The PAAA promotes the implementation of consequence management and taking of corrective actions because it empowers public auditors to report on MIs (Maluleke, 2021:1).

1.4 PROBLEM STATEMENT

There is an existing perception amongst researchers that good external auditing practices do not exist, only good external auditing theory due to accounting scandals and corruption pervasiveness (Mennicken & Power, 2013:1). This perception is sustained by the audit expectation gap (Salehi, 2011:8380; Quick, 2020:6; Budiarto, 2022:48). Sikka (2017:1) found that in some of these accounting scandals financial organisations collapsed even though they received unqualified external auditing reports. Consequently, auditors are frequently criticised for failing to detect fraud and corruption as to meet users of audit services expectations (Quick, 2020:5). Research has identified that corruption is one possible problem that external auditors have to re-consider when performing their duties to manage the expectation gap (Amundsen, 1999; Modugu, Ohonba & Izedonmi, 2012; Nelje & Claesson, 2014; Kassem & Higson, 2016; Ahyaruddin & Azmi, 2019; Jeppesen, 2019; Agyemang *et al.*, 2020). These researchers concur that corruption needs to be prioritised by external auditors in their audit engagements. The approach contained in the PAAA seeks to change audit activities and reduce the existing audit expectation, which contributes to these research findings (Quick, 2020:7; Budiarto, 2022:49).

Nelje and Claesson (2014:39) opine that auditing can be used as a useful tool to fight corruption and propose that researchers need to go deeper into the (external) auditing process to analyse where corruption could be detected. Furthermore, Kassem and Higson (2016:8) are of the opinion that external auditing techniques must be explored to find out how corruption risks can be assessed and responded to by external auditors. Agyemang *et al.* (2020:30)

suggest that usefulness and adequacy of (external) auditing standards and guidelines must be investigated.

These avenues for future research proposed by these researchers highlight the important research that still needs to be conducted to address the problem of corruption and the audit expectation gap. Consequently, this research analyses and explores the mitigation of corruption in South Africa within the public sector from 2018 to 2022 through the external auditing function which is an integral component of corporate governance. In 2019 when the PAAA came into effect it shifted the auditor's duties and responsibilities towards society's expectations (Quick, 2020:18). The PAAA implementation is not sufficiently explored by scholars creating a gap in available literature and is explored by the research. The problem statement for the research is formulated as follows:

How has external auditing evolved in corporate governance to curb corruption and to address the audit expectation gap in the South African public sector from 2018 to 2022?

1.5 RESEARCH AIM AND OBJECTIVES

The research aims to explore how external auditing evolved in corporate governance to curb corruption in government institutions from 2018 to 2022.

The objectives of the research are as follows:

- To gain an understanding of corporate governance.
- To understand and describe the benefits of external auditing as a component of corporate governance.
- To explore the evolution of external auditing in corporate governance.
- To identify the legislative developments of auditing in the South African public sector, with a specific focus on legislative developments that have occurred in external auditing legislation in South Africa from 2018 to 2022.

- To understand and describe how these developments have contributed towards curbing corruption in South Africa's public sector from 2018 to 2022.
- To understand and describe how the legislative development has contributed towards curbing corruption and addressing the audit expectation gap in South Africa's public sector from 2019 to 2022, the phasing in of the PAAA by the AGSA is examined.

This is done to understand the rate at which the PAAA was introduced and to observe if there are any specific issues needing special consideration in the implementation process. Understanding how the PAAA was implemented is necessary for this research as it provides more insight into external auditing evolution in corporate governance. The implementation of the PAAA is a strategy that reduces the audit expectation gap, and may assist in curbing corruption in accordance with the object of the PAA of ensuring auditing of institutions and accounting entities in the public sector (RSA, 2004b:s2).

Thereafter, the research describes the progress made in resolving reported MI reports during the period of the research. This is done to determine whether adequate attention is given to reported MIs and to determine the overall summary of actions taken to address MIs. These results are important for this research as they may indicate whether the identified legislative development occurring in the South African public sector is functioning and has any benefits in corporate governance before exploring its possible contribution towards curbing corruption.

Furthermore, the research understands and describes the actions taken when addressing resolved MIs. A MI is only resolved if the loss (or further loss) resulting from the MI is prevented and or any losses incurred have been recovered. Further, appropriate steps have been taken against the officials or party responsible for the loss (AGSA, 2019b:26; AGSA, 2022f:10). The aim is to observe whether actions taken to resolve MIs are implemented appropriately. This is important for the research as it helps identify any significant trends when resolving MIs that may suggest areas needing improvements to help curb

corruption in the public sector and may also indicate corporate governance benefits derived from the amendment.

After observing the implementation of the PAAA and identifying trends in actions taken to resolve MIs, the research explores and analyses the progress made in resolving corruption-related MIs. This is achieved by analysing MIs issued by AGSA in accordance with their nature. The aim of this exploration and analysis is to ascertain whether the PAAA helps in curbing corruption in the public sector. In sum, the following primary research question is formulated with relevant sub-questions:

How did external auditing evolve in corporate governance to curb corruption in the South African public sector from 2018 to 2022?

- How was the PAAA implemented in the audit of public sector entities from 2018 to 2022?
- What are the trends in the number of reported MIs at auditees where the PAAA was implemented?
- What actions are taken to implement the resolution of MIs by auditees where the amendment was implemented?
- What actions are taken to address corruption related MIs by auditees where the amendment was implemented?

1.6 DELINEATION AND LIMITATIONS

The researcher only reviews literature published in English as early as 1776 to 2023 to cover the evolution of external auditing in corporate governance. The research is limited to secondary data available from published reports on official websites that are available to the general public from 2018 to 2023. Moreover, the research is bound to a specific period namely: 2018 to 2022 when the PAAA was implemented, and the context of this research is the South African public sector. Further, Covid 19 pandemic might have had a huge impact on the figures

examined by the research thus negatively affecting the research finding. Lastly, generalisation of the findings is neither intended nor possible.

1.7 RESEARCH DESIGN AND METHODOLOGY

A research design is a strategic framework designed to link the research question and the implementation of the research strategy (Terre Blanche, Durrheim & Painter, 2006:34). The nature of this research is qualitative due to its objectives, strategy and data collecting techniques. Biggam (2008:88) asserts that research objectives, strategy and data collection techniques are important elements that differentiate between qualitative and quantitative research. The selected methodology provides support to the research and makes the attainment of the research objectives possible, as proposed by Quinlan, Babin, Carr, Griffin and Zikmund (2019:128). The research design is formulated in the critical theory philosophical framework. This qualitative research takes the form of documentary research. The documentary research method describes the use of documents containing relevant information to research a phenomenon (Ahmad, 2010:2). The documents used to conduct documentary research are prepared by individuals or agencies and contain information attesting to events or providing accounting (Ahmad, 2010:2). The AGSA reports that are publicly available are used to discover whether the PAA amended in 2018 is helpful in curbing corruption and addressing the audit expectation gap.

Readily available units of analysis are selected for the purposes of the research as proposed by Welman, Kruger and Mitchell (2005:68). The researcher selects and analyses all the institutions that were selected for the implementation of the PAAA covering the period from 2019 to 2022. A population of institutions audited by AGSA is considered for selecting the units of analysis. These institutions are contained in the Public Finance Management Act (PFMA) Consolidated General Report on National and Provincial Audit Outcomes (PFMA Reports), and AGSA MIs in National, Provincial Government and Public Entities Reports (MIs Reports).

The PFMA reports are issued annually by the AGSA in accordance with section 20 of the PAA providing information and insight to the public about how the South African national and provincial governments, including government entities are managing public funds. In addition, they also present the annual audit outcomes and give progress on the implementation of the amended PAA (RSA, 2004b:s20; AGSA, 2021a:II). MIs Reports are issued by the AGSA at least annually to report on the progress made in implementing the PAAA (AGSA, 2022f:5). The reports used for this documentary analysis are downloaded from AGSA's official website. Content analysis is utilised to study collected data. Content analysis is defined as a data analysis technique utilised to examine text rather than numbers (Quinlan *et al.*, 2019:150; Grad Coach YouTube Tutorial, 2021).

1.8 ETHICAL CONSIDERATIONS

Ethical clearance was obtained from University of South Africa's (Unisa's) College of Accounting Science Research Ethics Review Committee (CAS RERC) on 7 December 2022 before data collection in terms Unisa's policy on research ethics. The researcher acknowledges that ethics are the moral principles regulating the conduct of an individual, a group, or an organisation as proposed by Quinlan *et al.* (2019:44). Furthermore, the researcher accepts the duty and responsibility of not inflicting any harm while conducting the research. The researcher shows transparency and integrity and avoids plagiarism. The researcher also avoids any abuse of power associated with the title of a researcher, as recommended by Quinlan *et al.* (2019:43-44).

The researcher acknowledges that Unisa is committed to integrity, accountability, and rigor in research for the benefit of society. Furthermore, the researcher recognises that Unisa strives for excellence in its scientific work; hence the researcher upholds high standards, human dignity, social justice and fairness (Unisa, 2007). Strategies to ensure trustworthiness are utilised by the researcher as they describe validity and reliability in qualitative research design (Ferreira, 2014:12).

1.9 SIGNIFICANCE OF THE RESEARCH

The research can assist in understanding the link between corruption and external auditing in the public sector and ascertain whether corruption is curbed and the audit expectation gap addressed by audits conducted in accordance with the PAA. In addition, the importance of the research is due to the fact that it explores the implementation of the PAAA, which is a constructive approach to help address the audit expectation gap (Quick, 2020:7). The research explores the implementation of the PAA making suggestions than can be used by the AGSA to improve performance and contributes to existing literature.

1.10 CHAPTER OUTLINE

The chapters of the research are outlined as follows:

Chapter 1 – Rationale and overview of the research

This chapter provides the background of the research followed by the rationale of the research. Thereafter, the problem statement of the research is presented, and the research aim and objectives are formulated. The chapter also sets out the delineation and limitations of the research. The research design and methodology to answer the research questions is presented with ethical requirements. Finally, the significance of the research is discussed.

Chapter 2 – Literature review: Corporate governance

The aim of this chapter is to present reviewed corporate governance literature conducted to understand corporate governance. The chapter commences by discussing the need for corporate governance as business entities develop. Corporate governance is defined and its history is explained to provide context to the research. The underlying theories that form the basis of corporate governance are discussed. A brief overview of corporate governance from a South African perspective is discussed. Compliance issues and the principles of the King Code on corporate governance are described. The chapter concludes

with a discussion of corporate governance in the public sector.

Chapter 3 – Literature review: Evolution of external auditing and new developments in South Africa

This chapter defines external auditing, discusses the audit expectation gap clarifying the role of management and external auditors relating to corruption prevention and detection. The chapter also provides the benefits of external auditing as a component of corporate governance. The chapter presents the evolution of external auditing in corporate governance, and identifies the legislative developments of auditing in the South African public sector, with specific focus on legislative developments that have occurred in external auditing legislation in South Africa from 2018 to 2022.

Chapter 4 – Literature review: Corruption and public sector auditing

This chapter commences by defining the term corruption and provides its categories. Thereafter, it establishes a link between corruption and material irregularity. Further, it presents the drivers of corrupt behavior. The impact of corruption in the public sector is discussed. Finally, the chapter elaborates on public sector auditing and governance.

Chapter 5 – Research design, approach and methodology

This chapter discusses the research paradigm adopted by the researcher. Thereafter, it presents the research design and the research approach. It also provides a detailed research methodology. The research then provides the criteria used for assessing research quality. Finally, the chapter considers the ethical requirements for the research.

Chapter 6 – Research findings

This chapter presents the results of executing the research strategy. It presents the discussions of the analysis conducted and the findings of the research.

Chapter 7 – Conclusion

This chapter provides an overview of the research. It also provides a high-level summary of the findings to substantiate the recommendations made. The chapter further identifies areas for further research, and discusses the limitations of the research. Finally, the chapter discusses the importance of the research.

1.11 CONCLUSION

This chapter presented the background and rationale of the research. The researcher formulated the problem statement for the research, and the research aim and objectives were presented. After that the chapter provided the scope and limitations of the research. The chapter also provided the research strategy to be implemented to answer the research question. Further, the researcher provided ethical requirements considered when conducting the research. Lastly, the researcher reflected on the significance of the research and provided the outline of the research. The last section of this chapter defines the terms and concepts used in this research. The next chapter provides a discussion of corporate governance.

1.12 DEFINITIONS OF TERMS AND CONCEPTS

“Accounting authority” (AA) refers to a body or a person responsible for managing the affairs of a public entity (RSA, 1999:s49).

“Accounting officer” (AO) refers to a person delegated the responsibility of managing a government institution (RSA, 1999:s49).

“Amendment” refers to the provisions of the Public Audit Act Amendment No. 5 of 2018 (PAAA).

“Association of Certified Fraud Examiners” (ACFE) refers to the professional organisation responsible for organising and developing fraud examiners internationally (ACFE, 2020:2).

“Audit cycle” means the financial period (12 months) audited by AGSA within four months after the end of that financial period (RSA, 1999:s40(1)(c); RSA, 1999:s40(1)(d)).

“Auditee” refers to an organisation audited by external auditors (AGSA, 2021a:3).

“Auditor General South Africa” (AGSA) refers to the external audit office in South Africa responsible for auditing the public sector (RSA, 1996a:s188; RSA, 2004b:s4).

“Category” refers to areas that the AGSA reports on in its audits which are vulnerable to material irregularities and define the nature of MIs (AGSA, 2021a:221).

“Certificate of Debt” (CoD) means a legally binding document issued by AGSA to recover lost funds due to material irregularities (RSA, 2018:s3).

“Computer Assisted Audit Techniques” (CAATs) refer to the use of advanced computer technology by auditors to facilitate extracting and analysing procedures in an audit (Ajao *et al.*, 2016:35).

“Corruption Watch” (CW) refers to the Transparency International chapter working to fight corruption in South Africa (CW, 2024).

“Cut-off date” means the last date to consider information to be included in the PMFA report in each audit cycle by the AGSA (AGSA, 2021a:206).

“Financial statement” means annual financial statements complying with applicable standards (IFAC, 2021:16).

“International Auditing and Assurance Standards Board” (IAASB) refers to the international organisation responsible for developing international standards and pronouncements that govern audits, reviews, other assurance, and related services engagements that are conducted in accordance with International Standards (IFAC, 2021:7)

“Independent Regulatory Board of Auditors” (IRBA) refers to the board established by statute in South Africa to oversee and regulate external audit practitioners (RSA, 2005:s2).

“Institute of Directors South Africa” (IoDSA) refers to the Non-profit company that is a branch of the London Institute of Directors operating in South Africa recognised by the South African Qualifications Authority regulating professional directors (IoDSA, 2024).

“International Federation of Accountants” (IFAC) refers to the International organisation in charge of supervising the auditing and accounting occupation (IFAC, 2021:4).

“International Organisation of Supreme Audit Institutions” (INTOSAI) refers to the association of external government audit community responsible for developing the International Standards of Supreme Audit Institutions (INTOSAI, 2010a:4)

“International Standards on Auditing” (ISA) means the international authoritative fundamental principles established by the International Auditing and

Assurance Standards Board for the professional practice of external auditing (IFAC, 2021:7).

“International Standards of Supreme Audit Institutions” (ISSAI) means the authoritative fundamental principles established by the International Organisation of Supreme Audit Institutions for the credibility, quality and professionalism of public-sector auditing (INTOSAI, 2019a:4).

“Misstatement” means falsified or, misrepresented or misleading financial information contained in the financial statements with the potential to cause harm to decision makers who rely on it when making decisions resulting from error or fraud (IFAC, 2021:19).

“National Prosecuting Authority” (NPA) refers to the organisation with the power to institute criminal proceedings on behalf of the state, and to carry out any necessary functions incidental to instituting criminal proceedings in South Africa (RSA, 1996a:s179(2)).

“Organisation” (also institution) means a firm, non-profit organisation, organ of state, state institution, state-owned entity, retirement fund, voluntary association, or any other juristic person (IoDSA, 2016:15).

“Public Accountants’ and Auditor’s Board” (PAAB) refers to the organisation established by statute to regulate public accountants and auditors in South Africa (RSA, 1991:s2).

“Public Audit Act Amendment No. 5 of 2018 (PAAA)” refers to the Act that authorises changes to the Public Audit Act No. 25 of 2004 and in the context of the study also refers to the amended Public Audit Act No. 25 of 2004 to emphasise the implementation of the amendment.

“Public Sector” refers to all national and provincial state departments and administration. It includes all municipalities and all other institutions or public entities required by national or provincial legislation to be audited by the AGSA

(RSA, 1996:s188(1))

“Regulator” means any government or other institution responsible for overseeing the activities of an organisation within an economy (RSA, 2008:s1).

“Special Investigating Unit” (SIU) refers to a public organisation established by statute to receive and investigate allegations of serious maladministration, improper or unlawful state employee conduct, unlawful or irregular use, and intentional or negligent loss of state funds and public property (RSA, 1996b:s2).

“Standing Committee on the Auditor-General” (SCOAG) refers to a committee appointed by Parliament to oversee the functioning of the AGSA (RSA, 2014b:s10; RSA, 2016:148).

“Standing Committee on Public Accounts” (SCOPA) refers to a Parliamentary Committee established to oversee government financial reporting (RSA, 2016:146).

“State Member” refers to countries that are members of the United Nations who are signatories to the United Nations Convention against Corruption (UNODC, 2024:54)

“Supreme Audit Institution” (SAI) refers to the government auditor of the country (RSA, 2004b:s55; AGSA, 2020f:1).

“Transparency International” (TI) refers to an organisation established to monitor corruption around the globe (TI, 2021:6).

“United Nations Office on Drug and Crime” (UNODC) refers to the United Nations secretariat which is a custodian of Conventions (UNODC, 2004:53)

“United Nations Convention against Corruption” (UNCAC) refers to the agreement entered into by United Nations to fight corruption (UNODC, 2004:iii)

CHAPTER 2 – LITERATURE REVIEW: CORPORATE GOVERNANCE

2.1 INTRODUCTION

The aim of this chapter is to present reviewed corporate governance literature, conducted to understand corporate governance. The chapter begins by discussing the need for corporate governance as business entities develop. Corporate governance is defined and its history is explained to provide context to the research. The underlying theories that form the basis of corporate governance are discussed. A brief overview of corporate governance from a South African perspective is discussed. Compliance issues and the principles of the King Code on corporate governance are described. The chapter concludes with a discussion of corporate governance in the public sector.

2.2 THE DEVELOPMENT OF BUSINESS ENTITIES

Business activities commenced with small sole proprietors, who decided to produce surplus goods and services using limited resources at their disposal to satisfy the needs of other people rather than their own in exchange for what they needed but were unable to produce due to limited resources (Lipsey & Chrystal, 2007:114). Economic development allowed these entrepreneurs (principals) to undertake joint efforts termed partnerships, combining skills, knowledge and capital for the same purpose as the sole proprietorships and shared profits (Lipsey & Chrystal, 2007:114). The relationship between partners was regulated by agreements providing control and ownership to promote economic efficiency (Berle & Means, 1932:9). Civilisation encouraged the establishment of juristic business entities that allowed principals only to provide capital to expand the production process. These business entities, called corporations made use of agents who were hired to control the funds provided by owners (principals) who were not personally responsible for the daily operations of the business entities. Unlike partnerships and sole proprietors, corporations appointed people to run the business on their behalf (agents). This led to conflict between the interests of principals and agents (Jensen & Meckling, 1976:10-11; Cheffins, 2011:1). This

conflict created the need for corporate governance.

The separation of ownership and control identified by Cheffins (2011:1) resulted in business entities considering their external environments when conducting business activities. Consequently, business entities took action to manage relationships with other stakeholders (Udayasankar, Das & Krishnamurti, 2005:2; Abid *et al.*, 2014:172). Business entities also had to monitor agents' duty as stewards (Subramanian, 2018:89).

2.3 BACKGROUND TO CORPORATE GOVERNANCE

Corporate governance stems from the Greek word “Kyberman”, meaning to guide, steer or govern (Abdullah & Valentine, 2009:88). This is the initial phrase which was used to describe corporate governance (Abdullah & Valentine, 2009:88). The term corporate governance is generally utilised to refer to the manner in which corporations, countries or other organisations are governed (INTOSAI, 2019d:7). The concept of corporate governance is control orientated and is aimed at directing the activities of a corporation to ensure that investor's interests are protected establishing investor trust as it incorporates financial reporting (Salur, 2020:266). Corporate governance can be viewed as a broad term for various processes, policies and laws aimed at providing guidance to organisations on how to act, administer and control their operations (Turnbull, 1997:181; Najamuddin *et al.*, 2022:240; Hashim *et al.*, 2022:73). In other words corporate governance comprises of rules, regulations, procedures, and processes which facilitate good working relations between organisation's management, shareholders and other stakeholders (Salur, 2020:258). It provides a framework to guide all the people involved in the business of the corporation so that long-term shareholder value is achieved without neglecting the interests of other stakeholders (Bello 2012:10).

Corporate governance can be described as a framework whereby top managers are supervised by those elected to provide oversight through remuneration mechanisms (Abid *et al.*, 2014:167). In simple terms corporate governance is a

system by which organisations are directed and controlled (IoDSA, 1994:1). Transparency, accountability, fairness, and disclosure are the pillars on which corporate governance is based (Bhasin, 2013:56; Najamuddin *et al.*, 2022:240). The concept of corporate governance is control orientated and is aimed at directing the activities of a corporation to ensure that investor's interests are protected establishing investor trust as it incorporates financial reporting (Salur, 2020:266).

A single universal endorsed definition of corporate governance is difficult to formulate due to the role of various disciplines involved and the various contexts at play in each country (Turnbull, 1997: 184; Abdullah & Valentine, 2009:89). The various disciplines include “economics, organisational economics, organisational theory, accounting, law, information theory, management, finance, sociology, psychology, and politics” (Turnbull, 1997:180). Corporate governance is a dynamic concept with changes driven by both internal and external environments (IoDSA, 1994:35). As a result, corporate governance for different countries varies due to numerous factors, which may include culture, and developmental factors (Turnbull, 1997:184; Abdullah & Valentine, 2009:94). Due to this dynamic nature of corporate governance many countries review their corporate governance codes periodically (IoDSA, 1994:35). The next section discusses the theories underlying corporate governance.

2.4 THE UNDERLYING THEORIES THAT EXPLAIN CORPORATE GOVERNANCE

Development of business entities indicate that the need for corporate governance was first encountered when the agency problem was created, that is, when the investors surrendered control over their wealth (Berle & Means, 1932:4). The separation of control and ownership presented opportunities for individuals to sell their labour services to corporations as managers and utilise their competencies for the benefit of the principals as honest and loyal stewards and agents (Subramanian, 2018:89). According to Smith (1776:37) this was made possible by the division of labour which allowed agents and stewards to specialise and

develop managerial knowledge, skills and competencies for their own economic benefits that include earning salaries to buy products to fulfill their needs. The managers employed to control the wealth of capital providers act as agents and stewards taking into consideration various stakeholders as they perform their duties (Mamun *et al.*, 2013:38; Abdullah & Valentine, 2009:90; Abid *et al.*, 2014:170; Freeman, Dmytriiev & Phillips, 2021:1758).

Corporate governance mechanisms were motivated and grounded on agency, stewardship, and stakeholder theories. Therefore, corporate governance is used to control business operations uniting the three theories to protect the interests of shareholders and society (Subramanian, 2018:99; Kowala & Šebestová, 2021:22; Hashim *et al.*, 2022:70). These theories are the primary theories of corporate governance since they deal with the causes and effects of corporate governance variables, such as board structures, board committees, directors and executive management (Abdullah & Valentine, 2009:94; Mamun *et al.*, 2013:46). Let us explore the three theories identified further to achieve the research objectives.

2.4.1 Agency theory

The agency theory holds that in modern corporations, ownership is widely held by diverse principals who do not participate in the daily operations of their corporations but appoint agents to manage them on their behalf. The actions of management tend to deviate from the intentions of owners; thus, self-interests are prioritised (Donaldson & Davis, 1991:50; Obermann, Velte, Gerwanski & Kordsachia, 2020:992; Kowala & Šebestová, 2021:10; Raimo, Vitolla, Marrone & Rubino, 2020:524; Antwi, 2021:57; Hashim *et al.*, 2022:75). The departure of management's interest from owner's to theirs is attributed to man's selfish behaviour, aimed at maximising their own benefits (Davis, Schoorman & Donaldson, 2018:22; Najamuddin *et al.*, 2022:240). Agency relationships led to misaligned interests between principals and agents, resulting in the incurrence of agency costs and the occurrence of internal inefficiencies (Jensen & Meckling, 1976:6; Mamun *et al.*, 2013:38; Najamuddin *et al.*, 2022:240). Agency costs are aimed at controlling the agent's behaviour. The agent's behaviour to be controlled

includes, amongst others conflicts of interest and performance because managers are presented with an opportunity to fulfil their desires at the owners' and other stakeholders' expense (Berle & Means, 1932:6; Udayasankar *et al.*, 2005:1; Abdullah & Valentine, 2009:89; Yusof, 2016:155; Davis *et al.*, 2018:22; Antwi, 2021:57).

The agency theory is advocated by those who believe that principals would operate their businesses to maximise their own gain beyond financial benefits and agents are employed foreseeing the opportunity for serving self-interests (Jensen & Meckling, 1976:10-11; Davis *et al.*, 2018:22). Hence, aligning agent remuneration with performance served as a mitigating strategy of the agency problem (Fama, 1980:306). The agency relationship led to the need to control opportunistic behaviour (Abid *et al.*, 2014:168-169). Consequently, the principal tried to control management behaviour by designing and implementing controls, which came at the price of decreasing the effects of the agency problem (Kowala & Šebestová, 2021:10).

2.4.2 Stewardship theory

Stewardship theory asserts that managers act as stewards and do their work effectively and efficiently, taking good care of the assets under their control to attain high level of profits and returns for owners (Turnbull, 1997:189; Abid *et al.*, 2014:171; Subramanian, 2018:89). By doing this, managers believe that their usefulness and benefits are maximised (Abdullah & Valentine, 2009:90). In stewardship theory man's behaviour is modelled under the assumption that pro-organisational, collectivistic behaviour possesses better benefits than individualistic, self-serving behaviour (Abid *et al.*, 2014:171; Davis *et al.*, 2018:24; Obermann *et al.*, 2020:990).

The underlying assumption in stewardship theory is that the need to achieve motivates man's behaviour including gaining intrinsic satisfaction through conducting innately demanding tasks, exercising responsibility and authority which result in peer recognition (Donaldson & Davis, 1991:51; Kowala &

Šebestová, 2021:11). The stewardship theory maintains that managers are focusing on fulfilling their self-actualisation needs instead of survival needs, thus stewards place the firm's interests ahead of their personal interest (Abid *et al.*, 2014:171; Kowala & Šebestová, 2021:11). Accordingly, management structures in this theory should enable managers to achieve advanced performance with complete authority over corporations (Donaldson & Davis, 1991:52). Their role should not be ambiguous or challenged (Donaldson & Davis, 1991:52). Managers as stewards must be empowered rather than monitored and controlled when performing their duties because they protect and maximise shareholder's wealth (Davis *et al.*, 2018:26; Obermann *et al.*, 2020:994).

2.4.3 Stakeholder theory

The stakeholder theory suggests that agents or stewards have a network of relationships to serve within an organisation (Abdullah & Valentine, 2009:91). Stakeholders include owners, buyers, workers, suppliers, financial institutions, local charities, various groups, and governments (Mamun *et al.*, 2013:41; Subramanian, 2018:88). Building and maintaining stakeholder relations is important for better performance of an organisation (Freeman *et al.*, 2021:1758). It is important that an organisation identifies its stakeholders so that it can be able to determine the extent to which the corporation considers how the relationship with each group's needs will be handled to further the interest of the organisation (Mamun *et al.*, 2013:41). Fassin (2010:40) suggests that legitimacy, power and degree of responsibility be used to classify stakeholders to manage relations better.

The conjecture in stakeholder theory is that stakeholder management positively contributes to the firm's performance (Udayasankar *et al.*, 2005:2; Freeman *et al.*, 2021:1758). In addition, stakeholder management ensures ethical conduct and helps to illuminate the proper meaning of social responsibility (Stermberg, 1997:9). The stewardship theory can also assist organisations in achieving transparency and erect healthy interactions among owners and managers while reducing agency problems. Hence, activities that are associated with stakeholder

relations are useful in establishing and maintaining pleasant relationships with stakeholders (Mamun *et al.*, 2013:41).

In conclusion, to facilitate an effective explanation of corporate governance elements of all three theories are used because none of the theories on their own are perfect in explaining corporate governance (Mamun *et al.*, 2013:46).

2.5 CORPORATE GOVERNANCE IN SOUTH AFRICA

In 1992, the South African Institute of Directors initiated a research project with the purpose of promoting best practices for corporate governance recognised globally (IoDSA, 1994:foreword). This initiative was undertaken to achieve proper balance between freedom to manage accountability and the interest of the different stakeholders (IoDSA, 1994:3). This task was delegated to a committee chaired by Professor Mervyn King and was named the King Committee (IoDSA, 2002:5). The King Committee developed its own unique definition of corporate governance. The King Committee defined “corporate governance as the “exercise of ethical and effective leadership by the governing body towards the achievement of ethical culture, good performance, effective control and legitimacy” (IoDSA, 2016:20).

The King Committee issued four editions of the King Code since its establishment due to fundamental changes in business and society with corporate governance recommendations aimed at proposing an inclusive approach to the sustainable success of organisations, recognising the increasing importance of non-financial issues (IoDSA, 2002:15; IoDSA, 2016:3). The King Committee wanted to promote corporate governance, transparent and meaningful reporting to stakeholders, and enhance ethical consciousness and conduct through its reports. Lastly, the King Committee desired to make corporate governance acceptable, understandable, and put an amalgamated approach into practice across various sectors (IoDSA, 2016:22).

2.5.1 Complying with King IV report on corporate governance

The first King Committee report recommendations on corporate governance were only applicable to specific organisations, namely those business entities that were listed on the main board of Johannesburg Securities Exchange (IoDSA, 1994:26). Subsequent editions expanded the scope of this recommendation to include all entities incorporated in South Africa and the public sector (IoDSA, 2002:20; IoDSA, 2009:16; IoDSA, 2016:6). Entities complying with King IV report are required to apply the principles and explain their non-compliance (IoDSA, 2016:35 -37). This basis of compliance is preceded by the “apply or explain” prescript in the previous reports (IoDSA, 1994:35; IoDSA, 2002:19; IoDSA, 2009:6).

2.5.2 King IV principles

A discussion of the principles contained in the King IV report is beyond the scope of this research, however it is beneficial for the research to summarise the seventeen (17) principles recommended by the King IV report as these principles address the need for corporate governance discussed in previous sections emanating from the agency, stewardship, and stakeholder theories.

The principles of King IV report set forth the responsibilities of the governing body. This body is responsible for corporate governance in the entity they oversee (principle 6) (IoDSA, 2016:40). The governing body is mandated to appoint management and delegate duties, responsibilities, authorities and powers to support it (principle 10) (IoDSA, 2016:41). Additionally, the governing body is advised to establish sufficient and appropriate structures to support it in discharging its duties (IoDSA, 2016:40). This implies setting and delegating responsibilities to committees of the governing body (principle 8) (IoDSA, 2016:54). Therefore, the governing body must set and effectively manage strategy taking full responsibility for the overall performance management of the organisation (principle 4) (IoDSA, 2016:40). The strategy and performance must be continuously evaluated for improvements (IoDSA, 2016:58). The governing

body must also issue reports about the organisations performance and future prospect to all stakeholders to help them make informed decisions (principle 4, 5 & 9) (IoDSA, 2016:40). As it manages performance the governing body should devise fair, responsible and transparent mechanisms for remunerating the organisation's personnel, this is envisioned to promote positive outcomes and promote the achievements of strategic objectives (principle 14) (IoDSA, 2016:64).

The governing body must provide ethical and effective leadership (principle 1) (IoDSA, 2016:43). This means that the governing body must possess integrity, be competent, responsible, fair and transparent (IoDSA, 2016:43-44). To this end principle 7 prescribes that the governing body's competencies, proficiencies and independence be balanced for effective, responsible and objective performance of its duties (IoDSA, 2016:50). This should also be the norm for the whole organisation as required by principle 2 (IoDSA, 2016:44). Furthermore, principle 3 requires that the organisation should also be a responsible citizen, supporting the ethical leadership provided by the governing body (IoDSA, 2016:40). This entails compliance with the Constitution and relevant legislation regulating workplace, economy, society, and the environment, best practices, rules, codes and standards (principle 13) (IoDSA, 2016:45; IoDSA, 2016:63). To be able to achieve all of the aforesaid requirements the governing body is advised by the report to take effective steps to manage risks that can have significant impact on the operations of the organisation (principle 11) (IoDSA, 2016:61). The governing body should govern technology and information (principle 12) (IoDSA, 2016:62). To ensure that risks are managed effectively, the governing body must manage combined assurance services that support and promote transparency and accountability to all stakeholders (principle 15) (IoDSA, 2016:41).

The governing body must ensure that all stakeholders are considered when the organisation conducts its business in a fair manner according to their importance (principle 16) (IoDSA, 2016:41). Lastly, principle 17 requires the governing body to practice responsible investment when investing funds at its disposal to promote good governance (IoDSA, 2016:41). These recommended principles

address agency problems, facilitate stewardship accountability and promotes transparency to stakeholder as envisioned by Turnbull (1997:180). These principles also help establish strategic direction, effective policy-making, effective planning, adequate monitoring and accountability (IoDSA, 2016:40). Further they also promote decent, just, respectful, honest, fair and disciplined working environment (IoDSA, 2016:41). They promote better outcomes for the organisation and contribute towards improved authoritative management (IoDSA, 2016:41). South Africa is amongst the countries that recognise the importance of corporate governance (Hashim *et al.*, 2022:71). These and other principles are good governance mechanisms that should be practiced by governing bodies responsible for corporate governance in all South African sectors. The focus of this research is on the public sector therefore it is of paramount importance that it explores corporate governance in the public sector. Consequently the next section deals with this topic.

2.5.3 Corporate governance in the public sector

The King Report sets the tone for good leadership underpinned by the principles discussed as a result it is valuable in all types of organisations (IoDSA, 2016:6). The principles prescribed by the King Report are equally applicable and essential in both public and private sector (IoDSA, 2016:6). The fourth issue of the King Report contains supplements to provide direction and guidance on how it should be interpreted and applied by diverse sectors and organisation types (IoDSA, 2016:75). The supplements are made for municipalities (IoDSA, 2016:79), non-profit organisations (IoDSA, 2016:87), retirement funds (IoDSA, 2016:95), small and medium enterprises (IoDSA, 2016:103) and state owned entities (IoDSA, 2016:111).

In South Africa, legislation sets the minimum governance standards, and the King Report complements these standards (IoDSA, 2016:76). The South African government has developed comprehensive legal frameworks to regulate its activities, which are tailored to fit each sphere of government and government institutions as one size does not fit all due to complexity, size, structure, and

background (Barrett, 2002:11; Alqooti, 2020:17). These include amongst others: the Public Service Act No. 103 of 1994, the Financial Management of Parliament Act No. 10 of 2009, the Public Finance Management Act No. 1 of 1999, Treasury Regulations for Departments, Constitutional Institutions, Public Entities, Parliament and Provincial legislatures issued in terms of the Public Finance Management Act No. 1 of 1999, the Public Audit Act No. 25 of 2004 just to name a few (RSA, 1994b; RSA, 1999; RSA, 2001; RSA, 2004b; RSA, 2009).

These legal frameworks are embedded in the Constitution, which structures the government into three spheres, namely: national, provincial and local government (RSA, 1996a:s40). Corporate governance in the public sector at least requires a precise unambiguous identification and articulation of clearly defined responsibilities, an understanding of relationships between stakeholders and those that manage organisational resources, and a support from governance bodies and other participants (Barrett, 2002:13). It also includes rules and procedures for decision making to ensure enforceability and accountability (Alqooti, 2020:15). The Constitution in chapter three sets principles of co-operative government and inter-governmental relations creating the existence of enduring trust, accountable, transparent and fair integration of these three spheres of government (RSA, 1996a:s41). Moreover, section 195 of the Constitution prescribes the basic values governing public administration (RSA, 1996a:s195). These basic values relate to professional ethics, efficient, economic and effective use of public resources (RSA, 1996a:s195). Further, the basic values also address impartial, fair, equitable and unbiased provision of services, stakeholder participation, accountability, transparency, representativeness and good human resource management (RSA, 1996a:s195).

The Constitution complemented by legal statutes, regulations, codes, rules and standards enable government spheres, institutions and entities to exercise ethical and effective leadership towards the achievement of ethical culture, good performance, effective control and legitimacy as prescribed by the IoDSA (2016:20). The King IV report sets a higher bar which other organisations are to

follow suit including the public sector (IoDSA, 2016:76). Should a conflict exist between legislation and the King IV, the legislation prevails, however, if no conflict exists and the legislation prescribe less effective governance principle than King IV, King IV principle should be applied (IoDSA, 2016:76). Good corporate governance in the public sector implies competent public servants responsible for managing the country's resources, and public activities in a right way characterised by accountability, transparency, equitability and responsiveness to citizen's needs (INTOSAI, 2019d:7).

2.6 CONCLUSION

This chapter is a report on the literature review conducted on existing corporate governance literature which enabled the researcher to understand corporate governance. The chapter discussed the need for corporate governance emanating from the development of business entities. Further, the chapter presented the background of corporate governance and discussed the theories underlying corporate governance. Furthermore, the chapter provided a brief overview of the South African corporate governance reflecting on compliance issues and summarised the recommended principles contained therein. In order to contextualise corporate governance, the chapter discusses corporate governance in the public sector.

Ashbaugh and Warfield (2003:3) opine that external auditing plays a significant role in corporate governance because it is a monitoring mechanism that helps mitigate the agency problem, stakeholder relations and reporting on management stewardship. Therefore, the next chapter explores external auditing to discover its role in corporate governance.

CHAPTER 3 – LITERATURE REVIEW: EVOLUTION OF EXTERNAL AUDITING AND LEGISLATIVE DEVELOPMENTS IN SOUTH AFRICA

3.1 INTRODUCTION

This chapter defines external auditing, and discusses the audit expectation gap, clarifying the role of management and external auditors relating to corruption prevention and detection. The chapter also provides the benefits of external auditing as a component of corporate governance. The chapter presents the evolution of external auditing in corporate governance. It identifies the legislative developments of auditing in the South African public sector, with a specific focus on legislative developments that have occurred in external auditing legislation in South Africa from 2018 to 2022. The Public Audit Amendment Act No. 5 of 2018 sets the scene for the study.

3.2 EXTERNAL AUDITING AND ITS OBJECTIVES

External auditing is a component of auditing sciences that are broadly defined as third party certifications conducted by experts mandated or sponsored by the state or private initiatives (Francis, 2011:318). To enhance credibility of the third party conducting auditing or certifications standards are developed by standard-setting authorities (Francis, 2011, 319). To separate external auditing from other auditing sciences external auditing is defined as an independent examination of financial statements of an undertaking conducted by complying with international auditing standards by gathering appropriate evidence with the objective of expressing an audit opinion in an audit report, on the fairness of the financial position at a given date and the financial operations for the period ended on that specific date of which they relate (De Jager, Gloeck, Van der Linde & Barac, 1998:11; Imhoff, 2003:4; RSA, 2004b:6; RSA, 2005:s1; Arens *et al.*, 2014:24; Law & Yuen, 2018:85; INTOSAI, 2019b:8; Salur, 2020:260; IFAC, 2021:51). External auditing standards are developed and issued by the International Auditing and Assurance Standards Board (IAASB) for external auditors in private

practice and the International Organisation of Supreme Audit Institutions (INTOSAI) for public sector auditors (INTOSAI, 2019a:4; IFAC, 2021:7). The INTOSAI incorporates the ISAs developed by the IAASB into its ISSAIs, as a result the ISAs are also applicable to public sector audits (INTOSAI, 2019a:8; INTOSAI, 2019c:12).

The general aim of conducting an external audit is, to acquire reasonable but not absolute assurance whether financial statements as a whole do not contain material misstatements caused by error or fraud and to express and communicate an appropriate audit opinion to the relevant parties based on findings (Imhoff, 2003:4; Ajao, Olajumoke & Temitope, 2016:33; INTOSAI, 2019b:8; Salur, 2020:262; IFAC, 2021:51). However, fraud is a technical concept with legal implications (IFAC, 2021:104). As a result, external auditors focus their attention on fraudulent activities that may cause material misstatements in the financial statements (INTOSAI, 2019b:17; IFAC, 2021:104). The duty and responsibility of preventing and detecting fraud within the audited entity rests with management and the governing body (INTOSAI, 2019b:17; IFAC, 2021:104). Despite the distinction between the responsibilities of management and those of external auditors, an audit expectation gap exists between the external auditor's actual work and the expectations of users of financial statements (Salehi, 2011:8380; Quick, 2020:5; Budiarto, 2022:48).

3.2.1 Audit expectation gap

The difference between the expectations of the users of annual financial statements and the level of assurance that external auditors provide in terms of the International Standards of Auditing (ISA), contained in the audit report, is referred to as the expectation gap (Quick, 2020:5). The occurrence of corporate failures, financial scandals, audit failures, state captures, and the origin of external auditing has further widened the expectation gap (Salehi, 2011:8380; Bello, 2012:12; Mamun, *et al.*, 2013:37; Ajao *et al.*, 2016:32; SABC News, 2017; eNCA, 2018; Budiarto, 2022:48; Zondo, 2022:i). These factors have created tremendous pressure on what users of financial statements expect from external

auditors (Salehi, 2011:8380). Financial statements users expect external auditors to investigate, detect, and act on fraud. A further extreme to this expectation is where users expect auditors to provide absolute assurance on financial statements (Salehi, 2011:8380; Quick, 2020:7).

The audit expectation gap causes user dissatisfaction as society expects more from external auditors than what they actual deliver (Quick, 2020:7; Budiarto, 2022:48). Hence the confidence placed upon the external auditing profession is undermined (Salehi, 2011:8380; Budiarto, 2022:48). Accordingly, the audit expectation gap ought to be adequately managed and reduced by external auditors by making improvements in their responsibilities, ensuring that various users of financial statements are educated on the subject and making improvements on existing auditing standards and practices (Salehi, 2011:8390; Quick, 2020:7).

In terms of ISA 240, external auditors are concerned with fraud that causes material misstatements in the financial statements in the form of fraudulent financial reporting and asset misappropriation (IFAC, 2022:170). Jeppesen (2019:1) argues that external audit standards do not specifically include corruption in the definition of fraud, but they classified it as non-compliance with laws and regulations as presented in par 9 of ISA 240 (IFAC, 2021:104-105). Although ISSAI 1240 – extents the definition provided by ISA 240 referred to by Jeppesen (2019:1) by adding abuse to fraudulent behaviour, which is closely aligned with corruption, it also does not specify corruption in its definition of fraud (INTOSAI, 2019c:13; IFAC, 2021:105). Jeppesen's (2019:2) concern pertains to the fact that external auditing neglects corruption as a potential source of material misstatements in financial statements.

The expectation gap can be reduced by regulatory changes, the strengthening of external auditor's independence, the improved supervision of the auditing profession and the mandatory rotation and banning of non-auditing services (Quick, 2020:18). Hence, the regulatory changes occurring in the South African public sector auditing legislation formed part of the mechanisms designed to

address the audit expectations gap (RSA, 2018:s3). Further, ISA 700 was revised in 2016, to reduce the expectation gap as proposed by Quick (2020:7; IFAC, 2021:489). ISA 700 sets out the responsibilities of an external auditor when forming an opinion on financial statements expressed in an audit report. In terms of ISA 700 paragraph 37, the external auditors are required to clearly describe their responsibilities for the auditing of financial statements in the audit report, which should include, amongst others, audit objectives, compliance with ISAs, professional judgment, skepticism, risk identification and assessment, and understanding of internal controls (IFAC, 2021:494). The audit report must also describe the responsibility of the governing body and management regarding the preparation of financial statements, to reduce the audit expectations gap (IFAC, 2021:493). This expands the role of the audit report, and informs users about the actual tasks undertaken by the external auditors in an audit (Quick, 2020:7). The INTOSAI also endeavors to tackle the expectation gap by developing Guid 5270 – *Guideline for the audit of corruption prevention* (INTOSAI, 2019d). This guides the public sector auditors when they review the means of preventing corruption within the audited entity to reduce the expectation gap (INTOSAI, 2019d:15).

This research acknowledges the evolution of external auditing as one of the contributing factors that widen the audit expectation gap (Ajao *et al.*, 2016:32). The original function of auditing was to discover fraud (Puttick, *et al.*, 2007:2-3; Ali & Teck-Heang, 2009:2; Ajao *et al.*, 2016:32,). However, this role has evolved overtime, leaving users of financial statements holding the initial purpose in mind (Ajao *et al.*, 2016). To understand the phenomenon of the audit expectations gap, the responsibilities of the management and the external auditor are addressed by international standards and regulatory provisions (IFAC, 2021:494).

3.2.2 Management responsibilities

The management has a duty to develop, implement, monitor and maintain appropriate accounting policies, practices, financial systems and internal controls that ensure the adequate safeguarding and safekeeping of assets and records (De Jager *et al.*, 1998:11-12; IFAC, 2021:102; Budiarto, 2022:48). ISA 200

paragraph A2 states that this duty may be established by law or regulations and delegated to the management and the governing body to prevent material misstatements in the financial statements, whether such misstatements are caused by error or by fraud (IFAC, 2021:55). Moreover, ISA 240 paragraph 4 and ISSAI 200 paragraph 4, vests the responsibility of preventing and detecting fraud in the governing body and management of the audited entity (INTOSAI, 2019b:17; IFAC, 2021:104). In South Africa, this duty can be traced to the legislation as stated by ISA 240 and ISSAI 200. For example, it is articulated in the following legislation:

- Section 29 of the Companies Act No. 71 of 2008 requires a company to prepare financial statements annually that are not false, incomplete or misleading in any material respect (RSA, 2008:s29(2)).
- Sections 7 and 51 of the Financial Management of Parliament Act No. 10 of 2009, requires an Accounting Officer (AO) to prepare annual financial statements and take appropriate actions to prevent irregularities resulting from misconduct (RSA, 2009:s7; RSA, 2009:s51).
- Sections 38 and 40 of the Public Finance Management Act No. 1 of 1999, require an Accounting Authority (AA) and AO to take effective steps that prevent irregularities resulting from criminal conduct (RSA, 1999:s38; RSA,1999:s40); and
- Sections 62 and 122 of Municipal Finance Management Act No. 56 of 2003 require AO to prepare annual financial statements and take appropriate steps to prevent irregularities (RSA, 2003:s62; RSA, 2003:s122).

This clarity of responsibilities provides more insight into the role of external auditing. It separates the role of external which is only an assurance engagement, not a preventer or detector of fraud parallel to the expectations of financial statement users (Puttick *et al.*, 2007:62; INTOSAI, 2019b:17; Quick, 2020:5; IFAC, 2021:105; Budiarto, 2022:48). The management has a duty and

responsibility to preventing and detecting corruption (IFAC, 2022:170). The auditor plays a role in the combined assurance prescribed by corporate governance to assist the management in curbing fraud and corruption.

3.2.3 Role of external auditing in corporate governance and its benefits

External auditing forms part of combined assurance services codified in the South African King Code (IoDSA, 2016:68). In the South African public sector, the Constitution entrenches external auditing in corporate governance through section 188 (RSA, 1996a:s188). Section 188 of the Constitution is complemented by the PAA (RSA, 2004b:s2). External auditing plays a significant role in corporate governance as it is a monitoring mechanism that helps mitigate the agency problem, addresses stakeholder relations and reports on management stewardship (Ashbaugh & Warfield, 2003:3). External auditing provides financial transparency and improves accountability in corporate governance (Cicek & Dikmen, 2021:8). Furthermore, external auditing enhances the truthfulness and reliability of financial information reported to the users of financial statements for their decision making (IoDSA, 2016:68).

The research acknowledges that people, when making informed decisions, are persuaded by sources with a high credibility, as proposed by Pompitakan (2004:266). Credibility contributes positively to the attitudes and perceptions of information users (Pompitakan, 2004:266). Therefore, credible sources are capable of changing attitudes and gaining behavioural compliance (Pompitakan, 2004:266). Thus, external audit reports confer credibility on the financial statements and are useful for decision-making (Dye & Stapenhurst, 1998:4; Salehi, 2011:8276; Agyemang *et al.*, 2020:18; Salur, 2020:268; AGSA, 2021a:16). Audited financial statements provide investors with the opportunity to make informed decisions based on transparent, comparable, timely, reliable and credible information (Agyemang *et al.*, 2020:18; Salur, 2020:268). Due to external auditing, investors can discover whether organisations are managed appropriately, before they make their investing decisions (Sikka, 2017:1).

Stakeholders of organisations are informed about any looming failures and inabilities to continue operating in the foreseeable future of organisations through audit reports that are modified to include information related to such crises (Munoz-Izquierdo, Segovia-Vargas, Camacho-Miñano & Pascual-Ezama, 2019:404). Thus, external auditing is endorsed as a trust-engendering mechanism to convince the society that organisations are managed appropriately, and are directed at promoting accountability, responsibility, transparency, and fairness (Sikka, 2017:1; Ashbaugh & Warfield, 2003:26; Salur, 2020:259). External auditors are responsible for protecting and preserving the interests of the public due to the position they hold in the audited organisation (Nelje & Claesson 2014:4; Jeppesen, 2019:1). They monitor the activities of an organisation and report to users of financial statements (Jeppesen, 2019:9).

External auditing functions as one of the mitigating strategies when addressing agency problems (Quick, 2020:5). In other words, external auditing mitigates opportunistic management behaviour at the expense of stakeholders (Imhoff, 2003:14; Salur, 2020:264). Due to its oversight role, external auditing further mitigates the risks of the management's influence over the board's behaviour, lessening the effects of the agency problem (Imhoff, 2003:11). This confirms the claim made by Mennicken and Power (2013:1) that auditing is a powerful model of governance. Therefore, independent external auditing provides stakeholders with a reasonable assurance about the reliability of financial statements (Salur, 2020:262).

External auditing provides a reasonable assurance that annual financial statements as a whole are free from material misstatements, due to fraud or error (IFAC, 2021:104). This role is prescribed by ISA 240 and ISSAI 100 (INTOSAI, 2019a:15; IFAC, 2021:104). To perform this role, Kassem and Higson (2016:3) assert that external auditors should identify the risks associated with asset misappropriation and financial reporting fraud when planning audits in accordance with the auditing standards. Thus, external auditing has the potential to find various forms of fraud that occur within an audited organisation

(Ahyaruddin & Amzi, 2019:27). External auditing is perceived to be the external watchdog of shareholders' wealth and should alert the relevant stakeholders when it discovers fraud and other irregularities in audited organisations (INTOSAI, 2019c:16).

External auditing in the public sector provides assurance on the performance reports of auditees and on compliance with the legislation (INTOSAI, 2019a:11; AGSA, 2021a:16). As a result, auditors provide sufficient and appropriate information to the executive leadership and oversight structures affording them the opportunity to focus their attention on specific areas that improve service delivery and foster compliance with legislation (AGSA, 2021a:ii). This assures the transparency, accountability, conformance and performance of public sector operations, enhancing public administration (Barrett, 2002:6-7; INTOSAI, 2019a:10). Furthermore, external auditing reports foster public accountability and empower all stakeholders by informing them about how the public sector is managing public finances, providing timely performance information on service delivery. External audits conducted by the AGSA promote sound corporate governance by those charged with governance (Barrett, 2002:8).

Due to the independent character of external auditors and the recognition of the public as the external auditor's principal, external auditing adds credibility, cautions stakeholders, mitigates agency risk, and identifies and assesses the risks associated with fraud or error (Gustavson & Sundström, 2018:1514). Providing assurance to various stakeholders entails many functions in corporate governance, hence external auditing forms part of the combined assurance services under the auspices of the audit committee (IoDSA, 2016:68; Hoang & Phang, 2021:176). This study explores the evolution of external auditing this further clarifies some of the factors contributing to the widening of the expectation gap.

3.3 EVOLUTION OF EXTERNAL AUDITING

The word 'audire', meaning 'to hear' or "to listen" is a Latin word that gave birth to the word *audit* (Modugu *et al.*, 2012:77; Ali & Teck-Heang, 2008:1; Ajao *et al.*, 2016:33). Initially, to counter the agency problem, agents were summoned to appear before the auditor where the auditor would review the information provided by the agents to give an opinion to the principal about the agent's performance (Ajao *et al.*, 2016:33). The original function of auditing was fighting fraud to ease the minds of the principals (Ajao *et al.*, 2016:32). This indicates that auditing was born out of accounting, the stewardship theory and the agency theory.

The objectives and the role of auditors have evolved over the years due to the dynamic business environments discussed in Chapter 2 that gave birth to corporate governance (Ali & Teck-Heang, 2008:7). To help trace the evolutionary changes occurring in the external auditing discipline it is suggested that changes in external auditing should be grouped into four classes (Ali & Teck-Heang, 2008:2; Ajao *et al.*, 2016:34). The changes that took place before 1840 were followed by changes that occurred within the following time frames; 1840 to 1920, 1920 to 1960, and 1960 to the current time. However, this study modifies this proposal by reducing the timeframe from 1960 to the current time, from 1960 to 1990, and adds a fifth group, 1990 to the current time, as depicted in Figure 3.1.

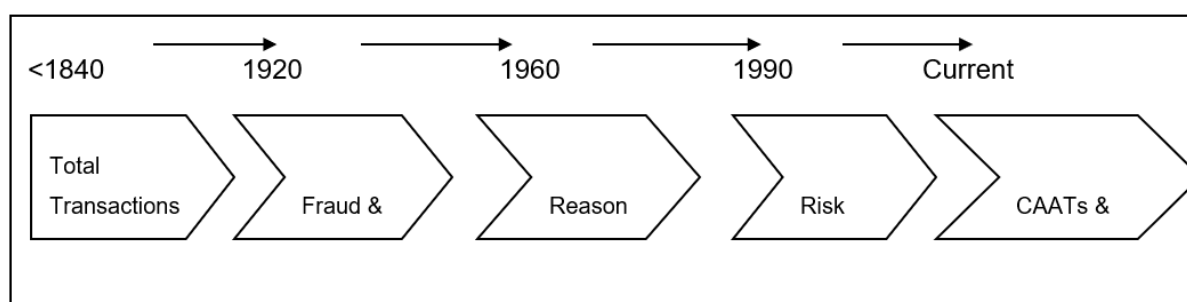


FIGURE 3.1: External auditing evolution

(Compiled by the researcher from Ajao et al., 2016:35).

According to Ali and Teck-Heang (2008:2), prior to 1840, external auditing was not documented adequately. Therefore, there is insufficient literature to consider

on this period. Prior to 1840, external auditing was meant to verify the honesty of agents and stewards responsible for managing financial resources, and the aim was to verify every transaction so that any potential fraud could be detected (Ajao *et al.*, 2016:34).

The industrial revolution led to the widespread adoption of auditing methods to protect investors from 1840 to the 1920s (Byrnes *et al.*, 2018:2). During this era, external auditors were required to detect fraud and errors, and external auditing became part of the statutes (Ali & Teck-Heang, 2009:2; Ajao *et al.*, 2016:34).

However, from the 1920s to the 1960s, the external auditing objective changed from providing absolute assurance to reasonable assurance when auditors were required to sample transactions due to the growing volume of transactions to add credibility to financial statements (Ali & Teck-Heang, 2008:3). During this period, external auditors relied on internal controls and the concept of 'materiality' was introduced (Ajao *et al.*, 2016:34). This gave birth to an audit expectations gap as the public was used to the external auditor's role of detecting fraud (Salehi, 2011:8380; Ajao *et al.*, 2016:34).

From 1960 to the 1990s, the external auditors' role included examining internal control systems and using the results to determine the extent of their work (Ajao *et al.*, 2016:35). In the 1980s, the external auditing approach changed and external auditors started using a risk-based approach to determine the extent of their work (Ajao *et al.*, 2016:35). This allowed auditors to focus their efforts on areas more likely to contain fraud and error. The reason for this shift was due to the audit expectation gap. Financial statement users expected auditors to detect fraud and error; hence their efforts were directed at high-risk areas susceptible to fraud and error in their audits (Salehi, 2011:8380; Quick, 2020:5, IFAC, 2021:105; Bodiarto, 2022:48). In this period, the external audit practice was strengthened by the introduction of International Standards on Auditing prepared by worldwide organisations advocating uniformity, accountability and transparency through adherence to high-quality professional standards to protect the public interests (IFAC, 2021:7).

After 1990, external auditing became part of the 4th industrial revolution when it introduced computer-assisted audit techniques (CAATs). CAATs facilitated the extraction and analysing procedures (Ajao *et al.*, 2016:35). The use of advanced computer technology in auditing presented an opportunity for providing higher level assurance with the possibility of analysing all business transactions in real-time (Ajao *et al.*, 2016:38). This period saw a rise in the services offered by external auditors. External auditors started offering value-adding services, such as risk management, irregularity reporting, and advising on internal controls (Ali & Teck-Heang, 2008:7). These changes contributed positively towards reducing the expectation gap. This is how external auditing evolved globally. The study now shifts its focus and traces the auditing-related legislative changes that have occurred in South Africa.

3.4 LEGISLATIVE DEVELOPMENTS OF EXTERNAL AUDITING IN SOUTH AFRICA

The South African legislation played an important role in the development of external auditing in South Africa (Puttick *et al.*, 2005:4). Professional societies had to be unified and the public needed protection against external auditing malpractices (Puttick *et al.*, 2005:4). Consequently in 1951 the Public Accountants' and Auditors' Act No. 51 was enacted (AGSA, 2020f:1). This act was enacted to establish the Public Accountants' and Auditor's Board (PAAB) responsible for administering the affairs of accountants and auditors in public practice (RSA, 1991:s2). This role included the registration, training and regulation of public accountants and external auditors (RSA, 1991:s2). The Public Accountants' and Auditors' Act No. 51 of 1951 was amended from 1956 to 1997 (RSA, 1991:s28). In 2005, the APA was enacted by Parliament and repealed the Public Accountants' and Auditors' Act (Puttick *et al.*, 2005:7; RSA, 2005:s60). The purpose of enacting APA was to make provisions that created a board to oversee the external auditing profession called the Independent Regulatory Board of Auditors (IRBA) (RSA, 2005, s2). The government had to make national, provincial and local government account for the funds allocated and generated

through taxes (RSA, 1996a:s40; AGSA, 2020f:1). This meant that government institutions also had to be audited in accordance with the legislated framework and mandate. According to the AGSA (2020:1), in 1911, the South African government enacted the Exchequer and Audit Act to enforce this audit requirement. This act was amended by The Exchequer and Audit Amendment Act of 1916 (AGSA, 2020f:1). In 1956, a second amendment of the Exchequer and Audit Act was made (AGSA, 2020f:1). In 1975, the Exchequer Act repealed all public regulating legislations consolidating and streamlining them into one regulation (AGSA, 2020f:1). This act made provision for the appointment of the AGSA and mandated the AGSA to audit certain accounts (RSA, 1975). In 1989, the Auditor General Act was enacted and amended in 1992, making provisions for AGSA's independence (AGSA, 2020f:1).

In 1992, Parliament created the Audit Commission and Staff Management Board for supervision of the AGSA (AGSA, 2020f:1). This was established by the Audit Arrangement Act No. 53 of 1992 (AGSA, 2020f:1). In 1995, the Audit Matters Rationalisation and Amendment Act No. 53 of 1995 was enacted to abolish audit offices of the former Republic of Transkei, Bophuthatswana, Venda, and Ciskei and to amend the Audit Arrangement Act No. 122 of 1992 (AGSA, 2020f:1, RSA, 1995a). In 1995, the Auditor General's Act No. 12 was enacted (RSA, 1995b). This act provided for the conditions of service and regulated the additional functions of the AGSA mandating the submission of audit reports to legislative institutions (RSA, 1995b).

It was only in 1997 when the Constitution of the Republic of South Africa came into effect that the AGSA gained its full independence (RSA, 1996a:s243). In 2004, the Public Audit Act No. 25 of 2004 (PAA) was introduced confirming the AGSA to be the Supreme Audit Institution (SAI) within the Republic (RSA, 2004b:s55; AGSA, 2020f:1). The South African Constitution recognised the AGSA as one of the Chapter 9 institutions that are independent and impartial for strengthening democracy (RSA, 1996a:s181). The Constitution mandates the AGSA to exercise its power and conduct its functions without favor, fear or

prejudice (RSA, 1996a:s181(2)). Other organs of state assist the AGSA to ensure its independence, impartiality, dignity and effectiveness (RSA, 1996a:s181(3)).

The Constitution mandates the AGSA to provide reasonable assurance that all the financial statements of the national and provincial departments and the administration, the local government and other government institutions and entities are free of material misstatements due to fraud or error (RSA, 1996a:s188; RSA, 2004b:s4). In addition, the AGSA is empowered to carry out investigations should it see the need, while performing its audits (RSA, 2004b:s29). The AGSA is accountable to the National Parliament, and must submit its audit reports to auditees' and where appropriate to the legislature and other organs of the state (RSA, 1996a:s181(5); RSA, 2004b:s10; RSA, 2004b:s21). Table 3.1 provides a summary of these legislation developments.

TABLE 3.1: Developments of external auditing in South Africa

Act	Enacted	Amended	Repealed
The Exchequer & Auditing Act	1911	1916 to 1975	1975
The Exchequer Act	1975		1995
Public Accountants' & Auditors' Act	1951	1951 to 1997	2005
Auditor General Act	1989	1990 to 1992	1995
Audit Arrangement Act	1992	1995 to 2004	2004
Audit Matters Rationalisation & Amendment Act	1995		
Auditor General Act	1995		2004
Public Audit Act	2004	2018 Public Audit Amendment Act No. 5 of 2018	
Audit Profession Act	2005	2021	

Source: Author's compilation (as per legislation)

3.4.1 Public Audit Amendment Act No. 5 of 2018

In 2018, the PAAA was enacted and came into effect on 1 April 2019 (RSA, 2018; Makwetu, 2019:1). Table 3.1 shows that the PAAA amended the PAA in 2018 (RSA, 2018). The PAAA provided the AGSA with an extended or enhanced mandate after a period of more than 108 years of its existence as an SAI (Gasela, 2022:1). The amendment included important components that are relevant to the study, namely, material irregularities (MI), binding remedial action, and certificate of debt (CoD) (RSA, 2018:s3). The implementation of the PAAA is regulated in accordance with section 52 of the PAA by the Material Irregularities Regulation of 2019 (MIR) (RSA, 2004b:s52; AGSA, 2019a). The PAAA empowers the AGSA to refer any suspected material irregularity (MI) identified during an audit to the relevant organs of state for investigation when applicable (RSA, 2018:s3(b); RSA, 2019a:s5). In addition, the AGSA is also empowered to take binding remedial action and issue certificates of debts (RSA, 2018:s3(b)). Binding remedial actions are actions prescribed by AGSA after failure to implement its recommended actions, they are legal binding actions that the AA/AO must take to resolve reported MIs, including, where appropriate, quantifying the losses suffered due to the MIs (AGSA, 2019a:s9(1); Makwetu, 2019:2; AGSA, 2022f:23). A CoD is issued by AGSA for a failure to implement the aforementioned binding remedial action when financial loss was involved and holds the AA/AO personally liable for the loss suffered (AGSA, 2021:205).

The external auditor's duty to report irregularities is legislated in South Africa for both private and government auditors. For auditors in private practice, section 20 of the Public Accountants' and Auditors' Act No. 80 of 1991, and Section 45 of the Auditing Profession Act No. 26 of 2005 (APA) prescribes the reporting responsibility of auditors in private practice. Section five of the PAA prescribes the reporting responsibility of government auditors (RSA, 1991:s20; RSA, 2005:s45; RSA, 2004b:s5; RSA, 2018:s3). The goal is to expose non-transparent decisions that are made contrary to the public interest (Dye & Stanpenhurst, 1998:4). This improves the effectiveness of external audit procedures in

preventing irregularities (Uecker, Brief & Kinney, 1981:466). The reporting obligation complies with ISSAI 1240 (INTOSAI, 2019c:16). The obligation of public auditors to report MIs is valuable for implementing consequence management and taking corrective actions because it empowers public auditors to report on MIs (Maluleke, 2021:1; Gasela, 2022:1).

The previous AGSA Makwetu (2019:1) noted that since 2016, the AGSA has reported the “extent of growing irregular, unauthorised, fruitless, and wasteful expenditure” to the relevant Parliamentary bodies that supervise the AGSA and this has resulted in the extension of the AGSA scope of engagement, because these reports indicated the need for the PAAA. In 2019, the PAAA, which is a robust method of dealing with corruption, was enacted (Makwetu, 2019:1). The AGSA can refer matters to, amongst others, the National Prosecuting Authority (NPA), the South African Police Services (SAPS) or the Special Investigative Unit (SIU) (Gasela, 2022:1-2). The referral of irregularities by external auditors contributes towards the strengthening of the legal, financial, and institutional framework (Dye & Stapenhurst, 1998:4). Referrals made by auditors improve the quality of reporting, improve accountability and enhance transparency (Maroun & Atkins, 2014:844).

3.4.1.1 Public Audit Act, 25/2004: Material Irregularities Regulation (MIR)

The AGSA follows the following steps when implementing the amended PAA as prescribed by the MIR issued by AGSA on 1 April 2019 (RSA, 2004b:s52; AGSA, 2019a:1; AGSA, 2020a:29). Initially, the AGSA notifies the AO/AA immediately, about a MI identified during an audit and grants the AO/AA twenty (20) working days to respond to the MI report in writing. This is in accordance with section 3(2) of the MIR, which prescribes that the AGSA must set the time for the provision of responses by AOs/AAs (AGSA, 2019a).

The AGSA may refer the MI to any relevant public body if further investigations are required (RSA, 2018:s3). These public bodies must inform the AGSA about the actions taken to resolve the reported MI and continuously update the AGSA

on the progress made including the final outcome of their investigations (RSA, 2018:s3; AGSA, 2019a:s5; AGSA, 2020a:30). These public bodies have the necessary authority, skills and requisite investigative capacity and include the Public Protector, SIU and the SAPS (Makwetu, 2019:2). The public body receiving a referral from AGSA must acknowledge receipt in writing and notify the AGSA if the reported MI is within its legal mandate for investigation, and if this is the case, it must also indicate the date for commencing the investigation (AGSA, 2019a:s5(5)). Thereafter, the investigative body must take appropriate actions guided by its legal mandate, functions and powers (AGSA, 2019a:s6(1)).

The AO/AA is required to submit evidence relating to the actions taken to resolve the MI, stating any further actions it plans to undertake in addressing the irregularity reported by AGSA (AGSA, 2019a:s3(2)(c)). The AGSA evaluates whether the response received is appropriate and is in line with the legal prescripts (AGSA, 2019b:29). If the AGSA is of the view that the proposed measures to address the reported MI are not suitable, the AGSA includes recommendations in the audit report prescribing the corrective actions to be taken by the AO/AA to resolve the MI specifying the deadline for implementation of its recommendations (AGSA, 2020a:30; AGSA, 2019a:s4(3)). These recommendations are the necessary actions to be taken to address the MI adequately (AGSA, 2019a:s4(3); Makwetu, 2019b:2). These different actions are needed to deal with various MIs adequately, as a result, there is no specific time prescribed for dealing with them. Instead the time varies in each case, depending on the actions needed to address them. Hence, the terms “sufficient time”, “specific time”, “stipulated time” or “time period” are used instead of precise time periods (AGSA, 2022f:16).

The AO/AA is granted sufficient time with the deadlines specified in the audit report to implement the corrective actions, while AGSA follows up on the progress made in the next audit cycle. An audit cycle means the financial period (12 months) audited by AGSA within four months after the end of that financial period (RSA, 1999:s40(1)(c); RSA, 1999:s40(1)(d)). An MI is only resolved if the

loss (or further loss) resulting from the MI is prevented and or any losses incurred have been recovered and further appropriate steps have been taken against the officials or party responsible for the loss (AGSA, 2019b:26; AGSA, 2022f:10). When AGSA recommendations are not implemented within the time period provided for in the audit report, the AGSA issues binding remedial action after the AGSA has received submissions from the AA/AO giving reasons for the non-compliance with recommendations within the stipulated time period specified in the report (AGSA, 2019a:s9(1)). Binding remedial actions are implemented by those responsible for the prevention of future losses and the recovery of losses suffered by the state, and should be implemented within a specified period prescribed by AGSA in audit reports (AGSA, 2019a:s9(1)(c); AGSA, 2019b:27; AGSA, 2021a:205).

The AGSA follows up on the implementation of the binding remedial actions if the binding remedial actions are not implemented; the AGSA issues a notice of intention to issue a CoD to the AO/AA. The AO/AA is provided with an opportunity to oppose the issue of CoD within twenty (20) working days in written submissions to the AGSA Advisory Committee responsible for assessing the submissions. The Advisory Committee is responsible for advising the AGSA whether the AGSA should continue to issue the CoD. Members of this committee are appointed by the AGSA (AGSA, 2019a:s16). If the Advisory Committee after following the due process, advises that the AGSA should issue the CoD, the AGSA acts accordingly and holds the AA/AO accountable for the losses it failed to recover. According to the AGSA, the issue of the CoD is only feasible after eighteen months from the date of notifying the AA/AO about the MI (AGSA, 2019a:s13; AGSA, 2019a:32). The eighteen months period coincides with the period mentioned by ACFE (2022:14) as the period that financial statements' fraud takes before being uncovered and addressed to recover any losses.

3.4.1.2 Challenges with the implementation of the PAAA

Although the PAAA might be an effective method for dealing with corruption it may only be effective when it receives the full support of the legislative and executive arms of the state (Deliwe, 2019:47). Preliminary research on the implementation of the amended PAAA shows that political leadership does not institute consequence management for executives who do not implement the AGSA recommendations (Nicol, 2020:22). In addition, Parliamentary Committees are unable to do anything about the AGSA's findings; all they do is to send reports to the National Assembly (Nicol, 2020:22). In practice, the Parliament is unwilling to hold executives to account (Nicol, 2022:25). This is due to the electoral system used within the country (Alkaster, 2020:50). This electoral system has a negative impact on the functioning of the AGSA because members of Parliament are not elected directly by voters; instead the party who wins the election is responsible for electing members of Parliament and such members will owe their loyalty to the political party that elected them forever (Alkaster, 2020:50; Nicol, 2022:24). Therefore, when AGSA's findings reveal any misconduct committed by a member of the ruling party, no actions are taken to resolve the matter (Alkaster, 2020:50; Nicol, 2022:24). Although the AGSA has been provided with additional powers, there is still inadequacy with regard to the effective implementation of the AGSA's recommendations (Mathiba & Lefenya, 2019:541).

The PAAA is silent about what needs to be done when the appropriate investigating authority that received the AGSA MI referral fails to inform the AGSA about its investigation or fails to investigate the referral (Mathiba & Lefenya, 2019:540). Moreover, the PAAA does not provide for adequate actions that should be taken should the AO/AA refuse or fail to cooperate with the AGSA for recovering the debt specified in the CoD, thereby creating legal uncertainty that undermines the purpose of the amendment (Alkaster, 2020:47). Furthermore, the PAAA does not state what should happen when both the AA and the AO are found to be involved in the material irregularities reported by

AGSA (Alkaster, 2020:48). Therefore, the investigation and prosecution may be delayed. The PAAA does not provide adequate guidance regarding the institutions responsible for receiving irregularity reports (Mathiba & Lefenya, 2019:541). Instead, it vests the responsibility of deciding which public body is best suited for investigating in the AGSA (Alkaster, 2020:23).

Lastly, the AGSA is facing capacity limitations, which have negative impact on the development and functioning of the AGSA. This is evidenced by the fact that the AGSA is implementing the amendment in gradual stages (Cicek & Dikmen, 2021:9; AGSA, 2021a:206; AGSA, 2022f:10).

In summary implementation of the PAAA is challenged by political leadership comprising of Parliament, and the executive councils that do not fully support the implementation of the PAAA. Ineffective structures for addressing AGSA findings exacerbate these challenges. Moreover, the PAAA is inadequately equipped with provisions for dealing with non cooperating parties when implementing the PAAA. Lastly the AGSA is constrained by resources to fully implement the PAAA. These challenges are not easy to address because they need ethical, competent and committed people to resolve them.

3.5 CONCLUSION

This chapter defined external auditing; in addition, it discussed the audit expectation gap and clarified the roles of management and external auditors relating to corruption prevention and detection. The chapter also referred to the benefits of external auditing as a component of corporate governance. Furthermore, the evolution of the external auditor was presented together with regulatory amendments relevant to auditing in the public sector. The most important regulatory amendment, providing the external auditor with additional measures for dealing with corruption, was presented with its shortcomings. The next chapter explores the concept of corruption and how the regulatory amendments assist the auditor in curbing corruption.

CHAPTER 4 – LITERATURE REVIEW: CORRUPTION AND PUBLIC SECTOR AUDITING

4.1 INTRODUCTION

This chapter commences by defining the term “corruption” and discusses its categories. Thereafter, it establishes links between corruption and material irregularity. Furthermore, it presents the drivers of corrupt behaviour. The impact of corruption on the public sector is also discussed. Finally, the chapter elaborates on the public sector auditing and governance.

4.2 THE MEANING OF THE TERM “CORRUPTION”

The Prevention and Combating of Corrupt Activities Act No. 12 of 2004 (PRECCA), in part one generally defines corruption as criminal conduct performed by anyone who benefits directly or indirectly or helps another person benefit by performing or not performing what the person is obligated or prohibited to perform amounting to the abuse of his or her position of authority, breach of trust and violation of legal duty (RSA, 2004a:s3). The PRECCA in subsequent parts defines different types of corruption which are relevant for the purpose of the study to accomplish the purpose of the United Nations Convention against Corruption (UNCAC) (RSA, 2004a; UNODC, 2004:iii). These diverse types of corrupt activities are defined in accordance with the UNCAC framework issued by the Secretariat of the United Nations (UNODC, 2004,iii). While academic literature generally recognises the definition of corruption as “the abuse of public office, authority, trust, power, or resources for private benefit” (Dye & Stapenhurst, 1998:2; Amundsen, 1999:2; Gustavson & Sundström, 2018:1508; Farooq & Shehata 2018:268; Jeppesen, 2019:2; Lino *et al.*, 2022:2; Shore, 2021:95; Mlambo, Mphurpi & Makgoba, 2023:38). Acts of corruption include bribery, extortion, nepotism, embezzlement, misappropriation of property, trading in influence, peddling, abuse of function, illicit enrichment, concealment, obstruction of justice or other personal temptation or inducement or inappropriate and illegitimate conduct performed by officers or authorities for private gain

(UNODC, 2004, 17-22; Nelje & Claesson, 2014:3; Mlambo *et al.*, 2023:38). The ACFE defines corruption as occupational fraud conducted by employees of an organisation using their positions to generate unwarranted private benefits by misusing or misallocating the employer's property intentionally (ACFE, 2018:78; ACFE, 2020:86). From the above definitions, the term "corruption" fundamentally means using one's position to secure unjust benefits. All these definitions recognise that corruption is characterised by illegitimate motives intended for self gratification although they describe its perpetrators somehow differently. For example the ACFE (ACFE, 2018:78; ACFE, 2020:86) ascribe corrupt behavior to employees while legal and academic definitions indicate that this behavior is beyond the boundaries of employment relations (RSA, 2004a:s3; Dye & Stapenhurst, 1998:2; Amundsen, 1999:2; Gustavson & Sundström, 2018:1508; Farooq & Shehata 2018:268; Jeppesen, 2019:2; Lino *et al.*, 2022:2; Shore, 2027:95; Mlambo, Mphurpi & Makgoba, 2023:38). Corruption is most likely to occur in organisations with more than 100 employees (ACFE, 2018:23; ACFE, 2020:26; ACFE, 2022:31). Furthermore, corruption occurs mostly in purchasing departments where goods and services are procured (ACFE, 2018:38; 2020:42; ACFE, 2022:50).

4.2.1 Categories of corruption

Academic literature asserts that corruption can be divided into two main categories, namely, political and bureaucratic corruption (Amundsen, 1999:3; Alina, Cerasela & Raluca-Andreea, 2018:566). However, this categorisation differs from the South African legal classification of corrupt activities. The PRECCA classifies corrupt offences as corrupt activities relating to specific persons (RSA 2004a:Part 2), receiving or offering of unauthorised gratification (RSA, 2004A:Part 3), specific matters (RSA, 2004a:Part 4), possible conflict of interest and other unacceptable conduct (RSA, 2004a:Part 5) and other corrupt activities (RSA, 2004a:Part 6). The study focuses its attention on academic classification since it an academic related research rather than a legal research hence the next section discusses the categories presented by academic

literature.

4.2.1.1 Political corruption

Political corruption is dishonest or illegal behaviour conducted by those in the political structures of the government (Amundsen, 1999:3). Political corruption is conducted by politicians in government who are entrusted with the power and authority when they use this power and authority for their own benefit and close associates who are usually political party members and other business allies (Alina *et al.*, 2018:566). This is done to solicit, loyalty, services, gifts, money and favours, amongst others (Alina *et al.*, 2018:566). Political corruption forms part of second-order corruption perpetrated by individuals or groups who commit abuse of power by amending current norms and rules so that they can benefit unfairly (Lino *et al.*, 2022:2). Political corruption sets the tone and tolerance level of corruption within a country as political leaders are the principals and agents who must exhibit the highest standard of integrity, however when those who are meant to be custodians of the law are themselves corrupt, the whole state becomes corrupt (Amundsen, 1999:3). An example of political corruption is the abuse of power (CW, 2020:18). In democratic countries, political corruption can be dealt with by reforming, strengthening and vitalising the existing independent institutions that uphold democracy (Amundsen, 1999:4).

4.2.1.2 Bureaucratic corruption

The second type of corruption is bureaucratic corruption (Alina *et al.*, 2018:566). This type of corruption happens in public institutions where public policies exist, but are implemented inadequately and ineffectively (Alina *et al.*, 2018:566). This is a first-order corruption practice as people participating in it, contravene or misinterpret current norms or rules in the community they serve for their own benefit (Lino *et al.*, 2022:2). An important indicator of the existence of this type of corruption within an organisation is when the management repeatedly ignores irregularities and weaknesses identified within the organisation (Chene & Kukutschka, 2017:8). Bureaucratic corruption includes, amongst others,

procurement corruption and maladministration (CW, 2020:18). Amundsen (1999:4) argues that this type of corruption can be dealt with through auditing, legislation and institutional arrangements. This study addresses the problem of corruption as it explores the legislative developments occurring in external auditing practices in the public sector to curb corruption.

4.2.2 Link between corruption and material irregularity

The PAAA is an example of legislated auditing arrangement that deals with bureaucratic corruption as suggested by Amundsen in earlier research (1999:4). The concept, 'material irregularity' (MI) (was introduced by the PAAA in section one (RSA, 2018:s1). The PAAA defines MI as:

...any non-compliance with, or contravention of, legislation, fraud, theft or a breach of fiduciary duty identified during an audit performed under this Act that resulted in or is likely to result in a material financial loss, the misuse or loss of a material public resource or substantial harm to a public sector institution or the general public (RSA, 2018:s1).

Corruption, in essence, refers to the misuse of a position for personal gain or to benefit another person. However, the MI definition does not consider who stands to benefit when the MI occurs, but only recognises that the state suffers or is likely to suffer material financial loss, the misuse or loss of material public resources or substantial harm to the public sector institution or the general public due to its occurrence. In other words, whenever a corrupt activity occurs within the ambit of the PAA government resources are lost and an MI occurs. Therefore, an MI includes corruption but is not limited to the definition of corruption and extends to any activity that is likely to cause material loss, harm to public resources or harm to the public.

Furthermore, breaches of fiduciary duties are common acts of MI and corruption according to their legal definitions (RSA, 2004a:s3; RSA, 2018:s1). A breach of fiduciary duty is described as the violation of an obligation of "care, loyalty and

good faith in all matters relating to the object of the duty,” and this may occur when a person occupying position conducts corruption and when MI occurs (DeMott, 2006:933; RSA, 2018;s1). Therefore, MI includes corruption. Lastly, the AGSA categorises MIs according to their nature. The nature of MIs describes areas vulnerable to material irregularities (AGSA, 2021a:221). Therefore, these are also areas vulnerable to corruption.

In South Africa, Corruption Watch reported that most corrupt activities reported were maladministration and procurement corruption (CW, 2020:18). Furthermore, this organisation asserts that in South Africa, billions of Rands of taxpayers' money was lost through deviation from accepted supply chain management rules and the expansion of contracts (CW, 2020:49). The AGSA (2022f:6) also highlights that most money is lost in supply chain activities. These deviations could be the results of corruption acts identified earlier, which include, amongst others, bribery, extortion, nepotism, conflict of interest and peddling (RSA, 2004a; Nelje & Claesson, 2014:3; Mlambo *et al.*, 2023:38). The ACFE also discovered corroborating evidence to these findings when it discovered that corruption occurred mostly in purchasing departments where goods and services are procured (ACFE, 2018:38; ACFE, 2020:42; ACFE, 2022:50). The research also notes that corruption is constantly rising (ACFE, 2018:10; ACFE, 2020:10; ACFE, 2022:9). This assertion is corroborated by the declining rate received by South Africa in the TI corruption index (TI, 2021:2; TI, 2023:2), although PriceWaterhouseCoopers (2022:4) findings in its 2022 Global Economic Crime and Fraud Survey contradicts this assertion and claims that fraud, corruption and economic crime rate show no increase since 2018. Therefore, after finding a link between corruption and MI, this study addresses the category of MIs that seem to be most prevalent to corruption and are on the rise in South Africa to achieve the last objective. People who exhibit corrupt behaviour are motivated by certain drivers; thus, the following section discusses the drivers of corrupt behaviour.

4.3 DRIVERS OF CORRUPT BEHAVIOUR

The drivers of corruption are also referred to as the fraud triangle (Othman, Shafie, Zakimi & Hamid, 2014:254; Carroll, 2015:2-3; Ocansey & Ganu, 2017:103; Nagirikandalage, Binsardi & Kooli, 2021:180). Corruption, as a component of occupational fraud, is a significant challenge driven by economic, political and socio-cultural factors (Alina *et al.*, 2018:556). People who commit corruption are driven by pressure, opportunity, and rationalisation (Othman *et al.*, 2014:254; Carroll, 2015:2-3; Ocansey & Ganu, 2017:103; Nagirikandalage, Binsardi & Kooli, 2021:180). However, this changed in December 2004 when Wolfe and Hermanson introduced the fraud diamond theory (Mansor & Abdullahi, 2015:41, Ruankaew, 2016:474). Capability is now added as the fourth driver of corrupt behavior (Mansor & Abdullahi, 2015:41, Ruankaew, 2016:474). The four drivers of corruption behaviour are discussed further in the next section.

4.3.1 Pressure

Pressure is the major motivator and reason for people engaging in corruption (Atagan & Kavak, 2018:3; INTOSAI, 2019d:12; Nagirikandalage *et al.*, 2021:181). Pressures can come from the market, performance requirements, incentives and greed (Shore, 2021:95; Kizil, Muzir & Yilmaz, 2021:97). Examples of pressure include financial difficulties, family problems, remuneration dissatisfaction, job challenges, addictive habits, and expensive life style (Atagan & Kavak, 2018:36; ACFE, 2018:44; IFAC, 2021:110; ACFE, 2022:60). Figure 4.1 provides a visual depiction of ACFE's findings providing frequency of each pressure category in reported cases of occupational fraud. Figure 4.1 shows that people living beyond their means and people who experience financial difficulties are the two main categories of pressure. Family problems, additive problems and inadequate pay are the other categories reflected in the figure. Pressure is perceived to be the major drivers of corruption in South Africa (CW, 2020:40).

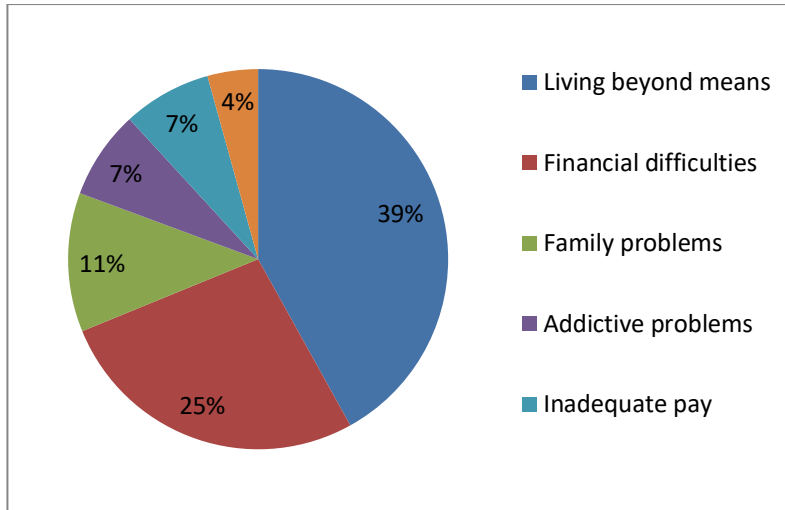


FIGURE 4.1: Categories of pressure
 (Source: ACFE, 2022:58)

4.3.2 Opportunity

Pressure alone does not induce a perpetrator to commit corruption; the perpetrator needs an opportunity to continue with his/her intentions (Nagirikandalage *et al.*, 2021:181). In other words, the circumstances must be favourable for the perpetrator to commit the corruption act (INTOSAI, 2019d:12; Nagirikandalage *et al.*, 2021:181). Examples of circumstances that present opportunities for corrupt behaviour are a lack of, and weak controls, poor control at the top, discretionary power, collusive behaviour, a lack of management review, oversight performed by incompetent personnel, loose or inadequate supervision, control override, absence of auditing, and weak legal institutions (ACFE, 2018:42; Ahyaruddin & Azmi, 2019:29; Shore, 2021:95; IFAC, 2021:110). Figure 4.2 provides a visual depiction of ACFE’s findings together with the frequency of each opportunity category in the reported cases. Figure 4.2 shows that the three main categories of opportunities are a lack of internal controls, the overriding of internal controls, and the lack of management reviews. Poor control at the top and the absence of auditing also play a role. Opportunity is perceived to be the second contributor to the widespread economic crimes in the public sector (Nagirikandalage *et al.*, 2021:181).

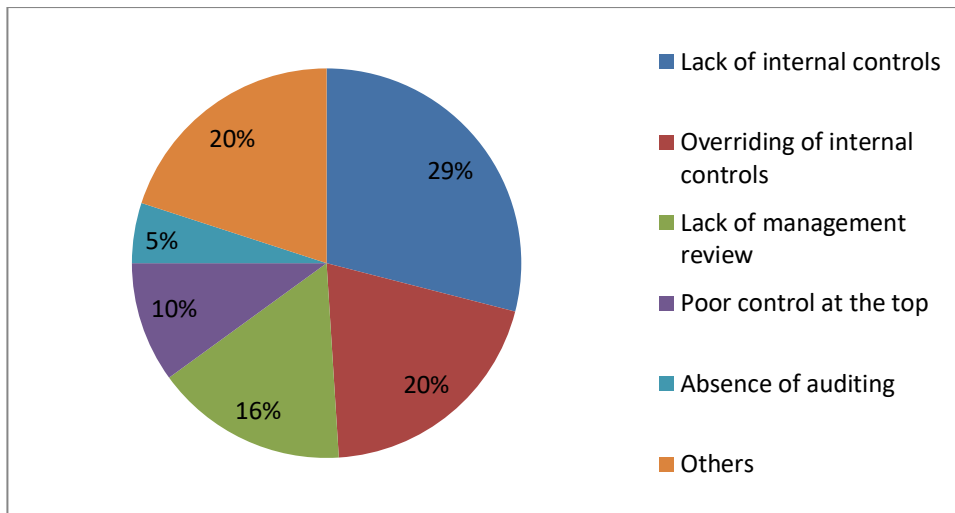


FIGURE 4.2: Categories of opportunity
(Source: ACFE, 2022:42)

4.3.3 Rationalisation

The third driver of corrupt behaviour is rationalisation (Nagirikandalage *et al.*, 2021:181). Rationalisation describes the attitude taken by the perpetrator to justify his/her actions when committing corruption; this is the adjusted state of mind that the perpetrator adopts before and after the corrupt act (Wellen, 2004:7; Atagan & Kavak, 2018:38; INTOSAI, 2019d:12; Kizil *et al.*, 2021:97). Schneider (2011:56) argues that corruption is an immoral act and its perpetrators face the risk of having an anti-social stigma if caught. Despite the negative stigma, people tend to alter their beliefs rather than their behaviour to rationalise the corrupt conduct (Schneider, 2011:56). Examples of factors that influence rationalisation are inadequate and ineffective consequence management for the perpetrators of corruption, employee status and organisational culture that afford them the chance to get away with corruption, ethical conceptions, and narcissistic behaviour without accountability (Wellen, 2004:7; Schneider, 2011:56; ACFE, 2018:47; Atagan & Kavak, 2018:38; Obermann *et al.*, 2020:999; ACFE, 2022:5). The reasons why people rationalise their corrupt conduct are important because these actions inform the existing conditions that cause the denial of responsibility and justification of corrupt behaviour (Wellen, 2004:9).

4.3.4. Capacity

Opportunity opens the window to fraud while pressure and rationalisation directs a person to the window and capacity enables the person to enter into the window (Mansor & Abdullahi, 2015:42). The last driver of corrupt behavior termed capacity refers to the traits, skills, knowledge and experience the perpetrator of fraud possesses that enables him/her to conduct the act of corruption (Mansor & Abdullahi, 2015:42; Ruankaew, 216:476). Position, intelligence, ego, coercion, deceit and stress are elements that support capacity (Mansor & Abdullahi, 2015:42). According to Ruankaew (2016:476) authoritative position within an organisation empowers the perpetrator, who has the intelligence to exploit an internal control weakness to his/her advantage and the capacity to deal with stress associated with consequences of committing corruption. Examples of situations that capacitate a person to commit corruption include qualified dishonest people appointed as Chief Financial Officers or Chief Executive Officers in organisations with weak internal controls (Ruankaew, 216:476). When people are driven to commit corruption their actions affect the economic sectors negatively, the research discusses the impact of corruption in the public sector due to its objectives.

4.4 IMPACT OF CORRUPTION IN THE PUBLIC SECTOR

Corruption has negative consequences in the economy, politics, and the socio-cultural environment. It is found to reduce and hinder economic growth and development, especially in developing countries (Klitgaard, 2006:299; Olken, 2007:201; Carr & Outhwaite, 2011:299; Nelje & Claesson, 2014:4; Alina *et al.*, 2018:566; Assakaf, Samsudin & Othman, 2018:227; INTOSAI, 2019d:8; Mlambo *et al.*, 2023:41). Reduction in the gross domestic product resulting from corruption harms development in public and private sector (Amundsen, 1999:1; Kassem & Higson, 2016:1). This results to serious damage to tax collections and tax compliance (Kassem & Higson, 2016:1; Alina *et al.*, 2018:566).

Corruption increases the number of people living in poverty, causing more hardship and declining standards of living, resulting to reduced quality of life hurting honest and innocent people especially the poor (Amundsen, 1999:1; UNODC, 2004:iii; Alina *et al.*, 2018:566; Assakaf *et al.*, 2018:227). In the Sub-Saharan Africa region corruption had a devastating effect on millions of citizens living in poverty (TI, 2021:14). Corruption has been found to redistribute wealth to undeserving corrupt people leaving the innocent suffering (Jeppesen, 2019:1; Ahyraddin & Azmi, 2019:26; Mlambo *et al.*, 2023:36). Furthermore, it has been found that since corruption hinders foreign investment, it also minimises the benefits of foreign aid worsening the deteriorating standards of living (Nagirikandalage *et al.*, 2020:171). Corruption causes inflation and weakens the quality of service delivery leading to dire consequences for the quality of life (UNODC, 2004:iii; Alina *et al.*, 2018:566; Mlambo *et al.*, 2023:41).

Corruption tends to diminish the legitimacy of public institutions for citizens (Alina *et al.*, 2018:566; Jeppesen, 2019:1; Ahyraddin & Azmi, 2019:26; Mlambo *et al.*, 2023:41). This lessens the effectiveness of legal statutes and good governance and threatens democracy (Amundsen, 1999:1; UNODC, 2004:iii; Modugu *et al.*, 2012: 79; Assakaf *et al.*, 2018:227). Moreover, corruption in law enforcement and judiciary contributes to a dangerous social and economic environment in a country (TI, 2021:10). Therefore, the level of trust and confidence in public institutions is diminished, resulting in the obstruction of growth and development in functioning government systems (Dye & Stapenhurst, 1998:2; Assakaf *et al.*, 2018:227; Ahyraddin & Azmi, 2019:26; Nelje & Claesson, 2014:4). These claims are also corroborated by the findings of the research done by Transparency International where it was discovered that Sub-Saharan African region countries are struggling to implement anti-corruption efforts due to their ineffective democratic institutions and inadequate democratic values (TI, 2018:11).

Corruption is difficult to detect and to measure by auditors, because it does not always leave evidence for auditing purposes (Olken, 2007:201; Modugu *et al.*, 2012:79; ACFE, 2022:13). The independence of external auditors may be

challenged when they are required to submit to the demands of senior officials involved in corruption (Flasher, Shirley & Higgins, 2022:A19).

Corruption creates serious restraints on the ability of the government to achieve social, economic and environmental objectives (Zafarullah & Siddiquee, 2001:465; UNODC, 2004;iii; Mlambo *et al.*, 2023:35). Corruption has found fertile ground in the public sector despite the fact that several mechanisms for addressing it have been implemented (Zafarullah & Siddiquee, 2001:466; Alkaster, 2020:41). The root causes may be ascribed to the country's political development, bureaucratic traditions, and social history (Pillay, 2004:589). The following factors are found to have direct or indirect impact on the prevalence of corruption: institutional weaknesses, the declining real wages of public sector employees, promotions unconnected to performance, a demoralised workforce and weakened employee honesty caused by corrupt senior officials and political leaders (Pillay, 2004:589).

Internal control deficiencies are the major contributors to the swift acceleration of corruption in both the public and private sectors (ACFE, 2022:42). The control deficiencies are characterised by inadequate controls, control override by the management, inadequate reviews by the management, inadequate independent checks, poor control at the top, unclear and undefined lines of authority, oversight performed by incompetent personnel, and inadequate employee occupational fraud education (ACFE, 2022:42). In its report in 2023, Transparency International rated South Africa in its corruption index with a score of 41 (which means that South Africa was amongst those countries that were performing below average in addressing corruption (TI, 2023:2).

4.5 PUBLIC SECTOR AUDITING AND GOVERNANCE

This section explores the role of external auditing in public sector governance to discover how it assists in curbing corruption. To mitigate the problems and concerns of the theories identified as the foundations of corporate governance in Chapter 2, the South African government created the Supreme Audit Institution

(SAI) to provide oversight on the public sector fiscal policy ensuring accountability, and transparency (RSA, 2004b:s1; Blume & Voigt, 2011:215; Cicek & Dikmen, 2021:8). The SAI was established by the Constitution, guided by legal prescripts and regulations and is designated the highest public audit function within the country (RSA, 1996a:s181; RSA, 2004b:s1). SAI provides financial, performance and compliance auditing (Blume & Voigt, 2011:218).

4.5.1 Supreme Audit Institution (SAI) models

There are three audit models that serve as frameworks for the operations of SAIs around the globe (Hay & Cordery, 2020:238). These models are the vehicles aimed at eradicating corruption within public sectors when used effectively (Blume & Voigt, 2011:216). The three audit models are the Court or Napoleonic model, the Westminster model and the Board model (Blume & Voigt, 2011:219; Hay & Cordery, 2020:238). SAI operations are founded on the Westminster model in South Africa (RSA, 1996a:s188). Thus, this study discusses the Westminster model further.

The Westminster model is headed by one person appointed by the Parliament (Blume & Voigt, 2011:219). In this model, the SAI is established by the Constitution of the country (Blume & Voigt, 2011:216). The Constitutionally founded SAI provides independent external auditing to all government organs, assuring the public and Parliament whether the public financial resources are used in accordance with the law, managed appropriately, and the public organs are performing effectively (RSA, 1996a:s188; Cicek & Dikmen, 2021:18). The audit outcomes are reported to relevant legislative bodies and announced to the public (RSA, 1996a:s188; Cicek & Dikmen, 2021:18).

The Westminster model establishes a Public Accounts Committee (PAC), which is responsible for receiving reports from the SAI on behalf of Parliament (Blume & Voigt, 2011:219). This committee consists of members of the national legislature appointed by Parliament (RSA, 2016:240). The PAC committee issues reports to be responded to by other relevant government divisions focusing more on fiscal

matters than legal issues. It is used mostly in countries with a common law origin (Blume & Voigt, 2011:219). The PAC considers financial statements of all government spheres, and their audits, and initiates investigations when necessary (RSA, 2016:147). The function of the PAC is to hold the custodians of the government financial resources accountable. This system works best in democratic countries (Cicek & Dikmen, 2021:18). According to Nicol (2020:23), the duty of the SAI to report to the Parliament implies a high likelihood of the implementation of its recommendations.

The Westminster model in a democratic country contributes to the development of a responsible, accountable and transparent government, thereby facilitating the timely sharing of appropriate and reliable information frequently (Cicek & Dikmen, 2021:8). In addition, the model assures the independence of external auditing monitoring the government spending behaviour, which contributes towards curbing corruption (Blume & Voigt, 2011:216; Cicek & Dikmen, 2021:9). Furthermore, the model allows legislative bodies to make informed decisions when compiling fiscal budgets (Cicek & Dikmen, 2021:20). The model reduces the tax burden and expenditure of the government due to the savings made through the prevention and detection of losses (Blume & Voigt, 2011:216, Cicek & Dikmen, 2021:10). Nonetheless, it should be noted that corruption affects democracy negatively, as it takes away the public resources needed to strengthen democratic institutions as well as the delivery of service leading to weaker democratic governments (TI, 2021:8).

4.5.1.1 The Auditor General of South Africa

South Africa's implementation of the Westminster model is grounded in section 181 of the South African Constitution and championed by the Auditor-General of South Africa (AGSA) (RSA, 1996a:s181). The AGSA is mandated by the Constitution to audit all the government organs and entities (SGA, 1996a:s188). In accordance with section 13 of the PAA, the AGSA when performing its audits, applies the ISSAs developed by INTOSAI, which incorporate SAIs issued by the IAASB (RSA, 2004b:s13; INTOSAI, 2019a:4; INTOSAI, 2019a:8; INTOSAI,

2019c:12; IFAC, 2021:1). The incorporation of ISAs into ISSAs implies that ISAs are also applicable to AGSA audits (INTOSAI, 2019c:12). The INTOSAI which regulates public sector auditors incorporates the IAASB auditing standards into its own ISSAIs for professional standards and guidelines for the “credibility, quality and professionalism of public sector auditing” (INTOSAI, 2019a4). Therefore, ISSAIs are developed by the INTOSAI to provide guidance on the application of the ISAs and to provide additional public sector application materials, however the requirements for the auditor are the same (INTOSAI, 2019a:8; INTOSAI, 2019b:4). Furthermore, the AGSA provides financial statements’ audits, assurance on the performance reports of government organs and entities and compliance with legislation (RSA, 2004b:s4; INTOSAI, 2019a:11; AGSA, 2021a:16).

The AGSA as a Chapter 9 is headed by the AGSA appointed through a fixed-term contract, which is non-renewable and is subject to submitting audit reports to the legislature and any other authority when required by the statutes (SGA, 2004b:s25). These audit reports are prescribed by section 20 of the PAA and are issued annually by the AGSA. The reports provide the public with information and insights about how the South African organs of state and state entities are managing public funds. In addition, they report on the progress of the implementation of the PAAA (RSA, 2004b:s20; AGSA, 2021a:II). Additionally, the AGSA issues MIS Reports at least annually reporting on the progress made in implementing the PAAA (AGSA, 2022f:5). The audit reports must be made public, and the AGSA is accountable to National Assembly (RSA, 1996a:s188; RSA, 2014b:s10).

A Standing Committee on the Auditor-General (SCOAG) is established by Parliament (RSA, 2014b:s10; RSA, 2016:148). This Parliamentary Committee comprises representatives from the National Assembly in proportion to political party representation (RSA, 2016:111). The SCOAG provides oversight over AGSA (RSA, 2016:148). The SCOAG receives all audit reports from AGSA and, in turn, submits its reports to the National Assembly reflecting on their decisions

and requesting other members of the National Assembly to provide necessary explanations to their reports where necessary (RSA, 2016:116). The SCOAG is authorised by the Rules of the National Assembly to call relevant people to appear before it when investigating any matter and must conduct public hearings when necessary (RSA, 2016:117). The SCOAG must ensure public involvement in accordance with the constitutional provisions and the Rules of the National Assembly (RSA, 2016:119). Lastly, documents emanating from SCOAG should be made public; however, there are exceptions to this Rule (RSA, 2016:127).

Rule 243 of the Rules of the National Assembly establishes a Standing Committee on Public Accounts (SCOPA) (RSA, 2016:143). The SCOPA is responsible for receiving AGSA's reports accompanied by financial statements from the SCOAG for consideration (RSA, 2016:146). The SCOPA is an oversight committee that can initiate any investigation in its area of competence arising from AGSA's reports submitted by the SCOAG (RSA, 2016:147). However, this SAI model has no power to punish wrongdoers unlike the court model. As a result, section 165 of the Constitution establishes the Judicial Authority to strengthen constitutional democracy by administering justice (RSA, 1996a:s165; RSA, 2004b:s5).

This institution is assisted and supported by the National Prosecuting Authority (NPA), the Special Investigating Unit (SIU), and the South African Police Services (SAPS) to bring perpetrators of corruption to justice (RSA, 1994:s8; RSA, 1995c:s17; RSA, 1996b:s1; RSA, 1996a:s179; RSA, 1996a:s165; RSA, 1996a:s205). These institutions are relevant for reporting material irregularities identified by the AGSA in an audit as required by the PAA (RSA, 2004b:s5; RSA, 2018:s3). This democratic structure allows the AGSA to be more effective in dealing with MI related to corruption.

4.5.1.2 The AGSA's corruption reporting process

As discussed in Chapter 3, the PAAA was enacted to respond to the rampant corruption in the public sector, aiming to recover the government resources lost

due to material irregularities and to hold those responsible accountable for their misconduct (Alkaster, 2020:41). The proposed measures contained in the PAAA, encourage the auditees to ensure that procurements are done at best prices, and payments are made for only what has been received (procurement and payment), efficient and effective use of resources (resource management), revenue owed to the state is recovered (revenue management), payments are made on time (interest and penalties), safeguarding of assets (misuse of public resources), and prevent fraud and encouraging compliance with legislation (fraud and compliance) (RSA, 1996a:s217; AGSA, 2020a:221). The proposed measures contained in the PAAA are:

First, the reporting of MIs related to corruption in an audit by AGSA to AOs and AAs for effective resolution (RSA, 2004b:s5; RSA, 2018:s3). Secondly, the referral of MIs related to corruption identified during an audit to relevant organs of state for investigation (RSA, 2018:s3(b)). These actions make imposing criminal sanctions on the perpetrators following the audit findings possible (Olken, 2007:202). The investigative bodies, where applicable, bring these cases to the courts for adjudication where sanctions may be imposed depending on the outcomes of the Court proceedings (RSA, 1998:s27). Therefore, the continuous support provided by other investigative agencies strengthens the combating of corrupt behaviour in the public sector (Nzewi & Musokeru, 2014:51), by triggering legal punishment, and damaging the reputation of convicted perpetrators (Uecker *et al.*, 1981:466; Olken, 2007:201; Avis *et al.*, 2018:1914). The reporting of MIs to investigative institutions serves as deterrence to future wrongdoings (Gasela, 2022:1).

Thirdly, the issuing of recommendations by AGSA when the auditees fail to resolve MIs reports related to corruption (AGSA, 2020a:30; AGSA, 2019a:s4(3)). This strategy is identified by the INTOSAI as a method of reducing corruption (INTOSAI, 2019d:15). Fourthly, the issuing of appropriate legally binding remedial actions when AGSA recommendations are not implemented is needed to resolve MIs related to corruption (AGSA, 2019a:s9(1); AGSA, 2022f:23). The remedial

actions instituted by AGSA mitigate the risk of not addressing MIs related to corruption, thereby ensuring that corruption is addressed and not ignored or neglected.

Lastly, the issuing of CoD when AAs/AOs fail to implement binding remedial actions recommended by AGSA to recover the losses incurred due to the occurrence of the MIs related to corruption (RSA, 2018:s3(b); AGSA, 2019a:13; AGSA, 2019a:32). The issuing of CoD means that the state is able to collect money from officials who fail to prevent MIs related to corruption after being notified and provided with the means of dealing with such instances. This may also contribute towards curbing corruption, as pointed out by *Avis et al.* (2018:1914). The SCOAG, in collaborating with the SCOPA may initiate investigations on executive authorities and accounting officers who are failing to implement AGSA's binding remedial actions and to comply with CoD (RSA, 2016:147). Hence, this ensures that MIs related to corruption, are addressed effectively, thereby helping to curb corruption.

In summary, these obligatory audit requirements may help curb corruption whenever an MI related to corruption is reported, resolved by the audited institution, where applicable, investigated by a relevant body and prosecuted in a Court of law with the possibility of criminal sanctions or when the funds lost by the state, are recovered through CoD.

4.6 CONCLUSION

This chapter defined corruption and identified and discussed categories of corruption. Thereafter, the chapter established links between corruption and material irregularity. Further, drivers of corrupt behaviour, namely, pressure, opportunity and rationalisation were discussed and the impact of corruption in the public sector was also presented. Lastly, the chapter elaborated on public sector auditing and governance focusing on the SAI model adopted by the South African government. The next chapter presents the research methodology of the research.

CHAPTER 5 – RESEARCH DESIGN, APPROACH AND METHODOLOGY

5.1 INTRODUCTION

This chapter sets out the research design, approach and methodology selected to address the problem statement of the research best: *How has external auditing evolved in corporate governance to curb corruption and address the audit expectation gap in the South African public sector from 2018 to 2022?* The PAA was amended in the South African public sector in 2018. The purpose of the amendments, which is the focal point of the research, is to ensure that AGSA recommendations are implemented, material irregularities identified and reported to relevant stakeholders and to recover lost funds. As explained in Chapter 4, the AGSA, as the SAI of South Africa, publishes reports to inform the public about how public finances are managed and report on its implementation of the PAAA. This research aims to understand and describe how these developments have contributed to curbing corruption in South Africa's public sector from 2018 to 2022. In addition, this chapter discusses the research paradigm adopted by the researcher. After that, it presents the research design and the research approach. It also provides a detailed discussion of the research methodology. The research then provides the criteria used for assessing the research quality. Finally, the chapter considers the ethical requirements for the research.

5.2 RESEARCH PARADIGM

A research paradigm comprises the traditional principles, values, norms, and attitudes to which a researcher subscribes when conducting research (Guba & Lincoln, 1994:107; Patton, 2002:69; Terre Blanche *et al.*, 2006:6; Creswell, 2014:5; Quinlan *et al.*, 2019:66; Cuthbertson, Robb & Blair, 2020:e95). A research paradigm establishes the abstract doctrines and philosophies that formulate the worldview of the researcher, prescribing how the researcher interprets and acts within that worldview (Kuyini & Kivunja, 2017:26; Quinlan *et al.*, 2019:56). A paradigm is necessary to inform the researcher about what is important, legitimate and reasonable (Patton, 2002:69). Therefore, a research

paradigm helps the researcher make sound decisions about the research methods to use when generating the required information for evaluations (Terre Blanche *et al.*, 2006:40; Quinlan *et al.*, 2019:56). To understand reality, a research paradigm defines how the world operates, the place of the researcher in it, the possibilities of knowing the world and the means of doing so (Guba & Lincoln, 1994:107). Examples of different types of paradigms that a researcher can select are: the positivist, interpretivist, critical theory and pragmatic paradigms (Guba & Lincoln, 1994:108; Patton, 2002:79; Terre Blanche *et al.*, 2006:6; Kuyini & Kivunja, 2017:30; Quinlan *et al.*, 2019:57; Cuthbertson *et al.*, 2020:e96).

Paradigms are characterised by various assumptions reflecting the ontology, epistemology, methodology and axiology that structure the belief systems held by diverse researchers (Guba & Lincoln, 1994:108; Terre Blanche *et al.*, 2006:40; Kuyini & Kivunja, 2017:26; Quinlan *et al.*, 2019:57). Ontological assumptions explain the characteristics of reality or the world studied, in other words, ontology portrays a picture of what is studied, and how it operates (Guba & Lincoln, 1994:108; Terre Blanche *et al.*, 2006:6; Kuyini & Kivunja, 2017:27; Quinlan *et al.*, 2019:57). Epistemological assumptions are foundational constructions about the nature of knowledge and how it is created (Kuyini & Kivunja, 2017:26; Quinlan *et al.*, 2019:57). Hence, the link and connectivity between the subject of investigation and the researcher is provided by epistemology (Guba & Lincoln, 1994:108; Terre Blanche *et al.*, 2006:6; Kuyini & Kivunja, 2017:26). Methodological assumptions are those founding concepts that describe the practical means for research (Terre Blanche *et al.*, 2006:6; Kuyini & Kivunja, 2017:28). Expressed differently, a methodology prescribes the methods that the researcher uses to find out about what the researcher believes can be known (Guba & Lincoln, 1994:108). Lastly, the axiology describes the right and acceptable behavior “that the researcher needs to consider when conducting research.” Axiology defines, evaluates and understands concepts relating to ethical behaviour when conducting research (Kuyini & Kivunja, 2017:28).

The philosophical assumptions underlying this research are founded on the critical theory paradigm presented after this. This research paradigm enables the creation of a research design that best answers the research questions. It connects the research questions to the tactical plans as the researcher explores the persisting social problem needing urgent attention using historical perspectives.

5.2.1 Critical theory

The critical theory has its origin in Germany and was developed by the School of Social Research at the University of Frankfurt in the twentieth century (Rehman & Alharthi, 2016:57). This is the founding theory of the critical realism paradigm which emerged in the 1970s and 1980s (Fletcher, 2017:4). The critical theory assumes that reality is socially embedded, constituted through history and is produced by people (Guba & Lincoln, 1994:114; Rehman & Alharthi, 2016:57; Cuthbertson *et al.*, 2020:e96). Furthermore, the critical theory acknowledges that people can attempt to understand the world through philosophy and the social sciences (Fletcher, 2017:4; Cuthbertson *et al.*, 2020:e96). The critical theory strives to change and transform the current situation for the emancipation of people through critique, questioning and evaluation of the social, political, economic, cultural, ethnic, and gender assumptions, eroding ignorance and stimulating action (Guba & Lincoln, 1994:112; Rehman & Alharthi, 2016:57; Kuyini & Kivunja, 2017:35; Cuthbertson *et al.*, 2020:e96). With regard to the critical theory, the researcher confronts authorities to expose the undesirable behaviour that suppresses people and creates prejudice (Rehman & Alharthi, 2016:57). The capability to clarify causes when studying social issues and recommending solutions for social change makes the critical theory paradigm useful in research (Fletcher, 2017:5). The paradigm stance taken by the researcher acknowledges that events in the world happen through causal mechanisms within objects or structures and can be observed, experienced and understood through interpretation (Fletcher, 2017:6).

The ontological position for this research is historical realism (Guba & Lincoln,

1994,110; Kuyini & Kivunja, 2017:35; Cuthbertson *et al.*, 2020:e96). This means that the researcher believes that the existing world is shaped by the interaction of social, cultural, political, economic, ethnic, gender and religious factors to create a social system (Guba & Lincoln, 1994:110; Rehman & Alharthi, 2016:57). The epistemological stance adopted is transactional and subjective, assuming that objects can be researched without being affected by the researcher but are linked interactively (Guba & Lincoln, 1994:110; Kuyini & Kivunja, 2017:35; Rehman & Alharthi, 2016:57).

Epistemologically, the researcher assumes that knowledge depends on constructing models to understand structures and mechanisms that account for the phenomenon examined (Cuthbertson *et al.*, 2020:e96). In this research, the methodology espoused requires the researcher to investigate the subject matter when conducting the research as proposed by Guba and Lincoln (1994:110), Kuyini and Kivunja (2017:35) and Rehman and Alharthi (2016:57). To prevent possible marginalisation, the researcher uses the collaborative approach engaging the subject matter in the formulated questions, data collection and analysis (Rehman & Alharthi, 2016:57). The researcher uses methods that enable the transformation of social systems that can be used to investigate the immediate problem by drawing upon multiple sources from the historical data (Bowen, 2009:28; Rehman & Alharthi, 2016:57). Axilogically, the researcher respects cultural norms (Kuyini & Kivunja, 2017:35). The researcher acknowledges that ethics are fundamentally inclined to morals requiring researchers to be revelatory rather than deceptive; this provides some process barriers that make it more difficult to conduct unethical behaviour (Guba & Lincoln, 1994:115). The researcher appreciates values and perceives them as necessities for shaping the research (Guba & Lincoln, 1994:114). In summary, the research design presented below is founded on the critical theory paradigm.

5.3 RESEARCH DESIGN

A research design is a planned systematic outline used to direct the actions of the researcher towards the attainment of the objectives of the research (Terre Blanche *et al.*, 2006:34). It involves setting the overall methods and approach used to gather and process the necessary data to answer the research questions (Terre Blanche *et al.*, 2006:34; Singh, 2023). The research objectives, strategies and data-collecting techniques require the adoption of a qualitative research approach as advised by Biggam (2008:88). The selected research methodology provides support to the research and enables the researcher to achieve the research objectives (Quinlan *et al.*, 2019:128). The research design is based on the following context:

The Westminster model of the Supreme Audit Institution adopted in South Africa is the foundation on which the research activities are founded. The SAI operations in this model are regulated by ISSAIs that incorporate ISAs (INTOSAI, 2019a:8; INTOSAI, 2021:2). The research focuses on the annual public sector audits conducted by the AGSA from 2019, the year when the amended PAA was implemented to 2022. The AGSA PFMA Reports and MIs Reports are the documents used for the research analysis. The reports mentioned above are prescribed by section 20 of the PAA and are issued annually by the AGSA. The reports provide the public with information about and insight into how the South African organs of state and state entities are managing public funds. In addition, they present the annual audit outcomes and report on the progress of the implementation of the PAAA (RSA, 2004b:s20; AGSA, 2021a:II). Additionally, MIs Reports are issued by the AGSA at least annually and report on the progress made in implementing the PAAA (AGSA, 2022f:5). The exploration and analysis conducted in this context help to address the research problem statement. Furthermore, it enables the achievement of the research objectives by providing answers to the research questions provided in the subsequent section.

5.3.1 Research problem statement and objectives

Auditors are often criticised for failing to detect fraud and corruption (Quick, 2020:5). As a result, the research identified that corruption is one possible problem that external auditors have to re-consider when performing their duties (Amundsen, 1999; Kennedy *et al.*, 2012; Nelje & Claesson, 2014; Kassem & Higson, 2016; Ahyaruddin & Azmi, 2019; Jeppesen, 2019; Agyemang, Bin Bardai & Ntoah-Boadi, 2020). These researchers concur that corruption needs to be made a priority by external auditors in their audit engagements to address the audit expectation gap. The approach contained in the PAAA, seeks to improve the audit activities and reduce the existing audit expectation, which is a contributing factor to these research findings (Quick, 2020:7; Budiarto, 2022:49). Consequently, this research analyses and explores the mitigation of corruption within the South African public sector from 2018 to 2022 through the external auditing function, which is an integral component of corporate governance. In 2018, the PAA was amended, and the PAAA came into effect in 2019 (RSA, 2018:s3; Makwetu, 2019:1). The PAAA shifted the auditor's duties and responsibilities towards society's expectations (Quick, 2020:18). The PAAA implementation has not been explored sufficiently by scholars; consequently, there is a gap in the available literature; hence it is explored by this research to understand its impact on corruption. The problem statement for the research is formulated as follows:

How has external auditing evolved in corporate governance to curb corruption and address the audit expectation gap in the South African public sector from 2018 to 2022?

To resolve this problem, the researcher set out to attain the following objectives:

- Gaining an understanding of corporate governance.
- Understanding and describing the benefits of external auditing as a component of corporate governance.

- Exploring the evolution of external auditing in corporate governance.
- Identifying the legislative developments of auditing in the South African public sector, with a specific focus on legislative developments that have occurred in external auditing legislation in South Africa from 2018 to 2022.
- Understanding and describing how these developments have contributed to curbing corruption in South Africa's public sector from 2019 to 2022.

To understand and describe how the legislative development has contributed towards curbing corruption in South Africa's public sector from 2019 to 2022, the phasing in of the PAAA by the AGSA is examined. This is done to understand the rate at which the PAAA was introduced and observed regarding whether any specific issues need special consideration in the implementation process. Understanding how the PAAA was implemented, is necessary for this research as it provides insight into the evolution of external auditing in corporate governance. The implementation of the PAAA is a strategy that reduces the audit expectation gap, and may assist in curbing corruption in accordance with the object of the PAA of ensuring auditing of institutions and accounting entities in the public sector (RSA, 2004b:s2).

After that, the research describes the progress made in resolving the reported material reports during the period of the research. This is done to determine whether adequate attention is given to reported MIs and to determine the overall summary of actions taken to address MIs. These results are important for this research as they may indicate whether the identified legislative development occurring in the South African public sector is functioning and has any benefits in corporate governance before exploring its possible contribution towards curbing corruption.

Furthermore, the research understands and describes the actions taken when addressing the resolved MIs. An MI is only resolved if the loss (or further loss) resulting from the MI is prevented and or any losses incurred have been

recovered and further appropriate steps have been taken against the officials or party responsible for the loss (AGSA, 2019b:26; AGSA, 2022f:10). The aim is to observe whether actions taken to resolve MIs are implemented appropriately. This is important for the research as it helps identify any significant trends when resolving MIs that may suggest areas needing improvements to help curb corruption in the public sector and may also indicate the corporate governance benefits derived from the amendment.

After observing the implementation of the amended PAA, and identifying trends in actions taken to resolve MIs, the research explores and analyses the progress made in resolving corruption-related MIs. This is achieved by analysing MIs issued by AGSA in accordance with their nature. This exploration and analysis aims to ascertain whether the PAAA helps curb corruption in the public sector. In sum, the following primary research question is formulated with relevant sub-questions:

How did external auditing evolve in corporate governance to curb corruption in the South African public sector from 2018 to 2022?

- How was the PAAA implemented in the audit of public sector entities from 2018 to 2022?
- What are the trends in the number of reported MIs at auditees where the PAAA was implemented?
- What actions are taken to implement the resolution of MIs by auditees where the amendment was implemented?
- What actions are taken to address corruption-related MIs by auditees where the amendment was implemented?

The research adopts the research approach discussed in the following section.

5.4 RESEARCH APPROACH

A qualitative research approach is adopted for this research in the form of documentary research. The researcher plans to gather documentary evidence covering various facets of the context of the research with the aim of accumulating sufficient, relevant, and reliable information about the social issues studied to answer the research questions (Patton, 2002:59; Biggam, 2008:84; Bowen, 2009:29).

5.4.1 Documentary research

Documentary research is a systematic disciplined approach for reviewing documents in diverse forms (Bowen, 2009:27; Ahmad, 2010:2). These documents contain reliable, relevant and appropriate information about the phenomenon being studied (Bowen, 2009:27; Ahmad, 2010:2). A documentary research method is more cost-effective, efficient, stable, exact, allows broader coverage, lacks obtrusiveness and reactivity compared to other methods of research (Patton, 2002:39; Bowen 2009:31; Ahmad, 2010:8). Hence, it is selected for conducting this research.

Nonetheless, it should be noted that documentary research uses secondary data not collected by the researcher, but by other individuals or agencies and institutions for their own purposes, which might be different from the researcher's data (Welman *et al.*, 2005:149; Bowen, 2009:31). Therefore, this researcher faces the challenge that this data may not be available in the form, quality and quantity that the researcher wants, requiring thorough search with a high risk of inaccuracy, incompleteness and unauthenticity (Bowen, 2009:31; Creswell, 2014:192). The researcher also faces the risk of not being able to retrieve the documents (Bowen, 2009:32). These factors may undermine the quality of documentary research; hence, the researcher has to take measures to mitigate these factors (Bowen, 2009:31; Creswell, 2014:192). The following research methodology was adopted for the research.

5.5 RESEARCH METHODOLOGY

A research methodology is concerned about the research techniques and methods that are utilised to gather data (Welman *et al.*, 2005:6). A qualitative research method is selected for this research because of its ability to describe, decode, translate and deal with the meanings of phenomena occurring in a social world (Welman *et al.*, 2005:188). Creswell (2014:20) suggests that a qualitative approach should be considered when the phenomenon to be explored and understood has been researched insufficiently like the PAAA. In this regard, Welman *et al.* (2005:9) proposed that qualitative research should involve small samples studied by in-depth methods to gain better information about the phenomenon studied.

5.5.1 Data collection

Data collection can be described as the practice of collecting the relevant data required to address the problem researched and to answer the research questions in order to accomplish the research objectives (Quinlan *et al.*, 2019:155). The research uses unobtrusive methods to collect the existing data in documents issued at regular intervals making trend analyses possible (Welman *et al.*, 2005:151; Quinlan *et al.*, 2019:155). Unobtrusive methods allow the collection of data without the researcher interfering with the units of analysis (Quinlan *et al.*, 2019:164). This researcher collected data from documents and used documentary evidence contained in AGSA reports to further the purpose of the research. Data are collected and analysed from secondary sources. Secondary sources can be extremely effective for research purposes (Quinlan *et al.*, 2019:159), hence they are utilised.

5.5.2 Units of analysis

A unit of analysis is the object that the research analyses with the aim of discovering certain facts about it and is the focus of the research (Patton, 2002:228). Therefore, the units of analysis for the research are the national departments, provincial departments, and state-owned enterprises selected for

the implementation of the PAAA from the 2019 to the 2022 audit cycles. The key issue for selecting these units of analysis is to determine the conclusions to be made by the researcher when completing the research (Patton, 2002:228).

Implementation of the PAAA was carried out in gradual stages in accordance with the diverse elements of the definition of MI over a three year period starting on 1 April 2019 (AGSA, 2021a:206; AGSA, 2022f:10). The phasing in approach was guided by the step-by-step implementation of the MI definition from the 2018 to the 2019 audit cycle when the scope of reporting MIs was focused on reporting the non-compliance with legislation likely to result in material losses (AGSA, 2020a:27). The second audit cycle (2019 to 2020) of the phasing in of the PAAA saw the extension of the scope for reporting MIs to include non-compliance with or contravention of the legislation resulting in or was likely to result in material losses considering fraud and theft or breach of the fiduciary duty constituting non-compliance with the legislation part of the definition of MIs (AGSA, 2020a:27). The implementation of the PAAA finally considered the full definition of the MI in the 2020 to the 2021 audit cycle where all elements of the definition of MI were used to set the scope of MIs to be reported in audits conducted by the AGSA (2021a:206).

The AGSA agreed upon the phasing in implementation of the amendment and the SCOAG (AGSA, 2019b:24; AGSA, 2020a:27). The AGSA (2020a:27) asserts that the phasing in of the amendment allowed the AGSA to manage the risks associated with the implementation of the amendment effectively, while aligning the AGSA resources responsibly with the demand placed upon the AGSA. This also helped in establishing relationships with the institutions and other bodies with which the AGSA has to interact when reporting MIs (AGSA, 2020a: 27). Furthermore, it created an awareness of the amendment in the external environment (AGSA, 2019b:24). The phasing in approach was directed by the systematic implementation of the definition of MI. Therefore units of analysis include the organisations selected by AGSA for implementing the PAAA from 2019 to 2022.

5.5.3 Sample selection

Sampling is the scientific practice of studying a proportion of the population due to the impractical and uneconomical possibilities of studying the entire population (Welman *et al.*, 2005:55). Welman *et al.* (2005:204) recommend that preference should be given when selecting a sample in qualitative research to important informants who have required sufficient expertise and are in positions that enable them to provide appropriate, relevant and reliable information about the units of analysis. Consequently, the quantity of the sample to form part of the research depends on the purpose and objectives of the research, what is available as credible sources, and the utmost effective utilisation of scarce resources to cover the overall scope of the research (Patton, 2002:224).

Due to the relatively small number of institutions selected for the implementation of the PAAA by AGSA, the research analyses all the institutions selected by the AGSA for implementing the PAAA from 2019 to 2022. These units of analysis are selected from the total of all the institutions audited by AGSA. The research did not intend to generalise its outcomes to any specific population instead, the researcher wants to gain a detailed understanding of the MIs reported and the organisations receiving these reports. Therefore the units of analysis selected comprised of sixteen (16) units of analysis in 2018-19 (AGSA, 2019b:25; AGSA 2020a:28; AGSA, 2021a:206; AGSA, 2022f:6); eighty-nine (89) in 2019-20 (AGSA, 2020a:28; AGSA; 2021a:206); ninety-five (95) in 2020-21 (AGSA, 2022a:18; AGSA, 2022f:10), and two hundred and two (202) in 2021-22 (AGSA, 2022a:18; AGSA, 2022f:10). The selected units of analysis were responsible for most of the estimated expenditure budget, were also key contributors to the government priorities, and had a history of irregular expenditure and negative audit outcomes (AGSA, 2019:a:25; AGSA, 2020a:28; AGSA, 2022f:10).

5.5.4 Gaining access

To access the units of analysis from the AGSA reports, the AGSA official website (www.agsa.co.za) is used to search for public reports issued by AGSA on

<https://www.agsa.co.za/Reporting/PFMAReports/PMFAGeneralreports-provincial.aspx>. Reports for each reviewed audit cycle are downloaded from the list of reports available on the website.

5.5.5 Data analysis

Data analysis involves the systematic examination of information contained in data sources, identifying themes and the significance of how they are presented (Welman *et al.*, 2005:222). This is achieved by counting frequencies and sequences of particular words, phrases or concepts so that the identification of themes is made possible (Welman *et al.*, 2005:222). In this research, document analysis involves skimming, reading and interpreting the AGSA reports curbing relevant data (Bowen, 2009:32). According to Bowen (2009:32), document analysis is possible through content analysis. Content analysis is defined as the procedure used to categorise information related to the research problem statement, research aim and objectives (Bowen, 2009:32). Content analysis entails data reduction, data display, drawing, and verifying conclusions (Ahmad, 2010:6). Both data reduction and data display help in drawing and verifying conclusions (Ahmad, 2010:8). Content analysis makes it possible for data to be translated so that problems are simplified for the analysis, and storage and distribution of data are possible by bringing the extensive amount of data into more manageable proportions (Ahmad, 2010:7). When conducting content analysis Ahmad (2010:7) suggests that data should be edited, segmented, and summarised in a structured manner and data should be displayed using charts and diagrams.

To make this task more manageable, Microsoft Office software (Word and Excel) is used. This documentary research aims to analyse and explore how the PAAA contributed towards curbing corruption in South Africa's public sector from 2019 to 2022. Figure 5.1 presents a visual depiction of the areas explored by the data analysis. The next section explains the procedures performed to the activities presented in the figure.

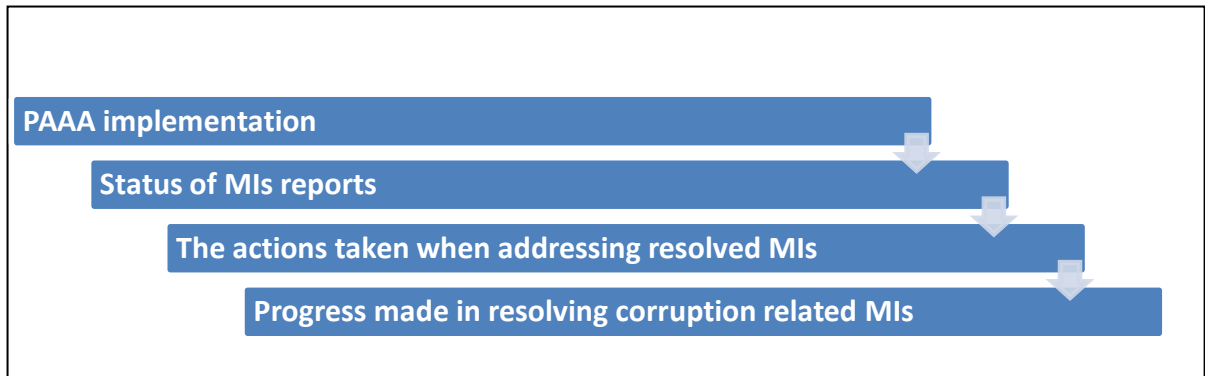


FIGURE 5.1: Explored areas
(Compiled by researcher)

5.5.5.1 Phasing in of the PAAA

The aim of the analysis is to identify, understand and describe how the AGSA phased in the PAAA. To achieve this objective, information relating to AGSA of the PAAA by the AGSA, and to determine those that received MIs reports. This is done to understand the rate at which the PAAA audits is extracted from the AGSA PMFA reports and MIs reports for each audit cycle to determine the total number of auditees eligible for the implementation of the PAAA, to determine the number of auditees selected for the implementation was introduced, and observe if there are any specific issues needing special consideration in the implementation process. Understanding how the PAAA was implemented is necessary for this research as it provides more insight into the external auditing evolution in corporate governance and assists in answering the first research question. The implementation of the PAAA is a strategy that reduces the audit expectations gap, and may assist in curbing corruption in accordance with the object of the PAA of ensuring auditing of institutions and accounting entities in the public sector (RSA, 2004b:s2) (Appendix 1, section 5.5.5.1).

5.5.5.2 The status of reported material irregularities

The aim of conducting this analysis is to identify the precise number of MIs reports issued by AGSA and determine the number of MIS reports that the AGSA completed evaluating responses provided by AOs/AAs during the period of this research. To achieve this objective, information relating to the AGSA audits and

MIs reports issued by AGSA was extracted from the AGSA PMFA reports and MIs reports for all the audit cycles to identify the total number of MIs issued by the AGSA, the number of reported MIs still being considered by AO/AAs for providing responses to the AGSA, and the number of MIs reports with responses that AGSA is still evaluating on the cut-off date. The results should provide the precise number of evaluated MIs reports curbing specific actions taken to address the reported MIs. The MIs reports evaluated by AGSA should be analysed further to determine the overall actions taken when addressing them in each audit cycle by identifying and summarising the different actions (that is, resolve the recommendation issued) taken to resolve the evaluated MIs. The results are important for this research as they may indicate whether the identified legislative development occurring in the South African public sector is functioning and has any benefits in corporate governance. The analysis assists in answering the second research question, before exploring its possible contribution towards curbing corruption (Appendix 1, section 5.5.5.2).

5.5.5.3 Trends in the resolved material irregularities

An MI is only resolved if the loss (or further loss) resulting from the MI is prevented and/or any losses incurred have been recovered and further appropriate steps have been taken against the officials or party responsible for the loss (AGSA, 2019b:26; AGSA, 2022f:10). The aim of this section is to examine the outcomes of the resolved MIs to determine whether the actions taken to resolve them were implemented appropriately. To achieve this objective, information showing the outcomes of actions taken when addressing the resolved MIs was extracted from the AGSA PMFA reports and MIs reports for all resolved MIs to perform further analyses (Appendix 1, section 5.5.5.3). This is important for the research as it helps identify any significant trends when resolving MIs that may suggest areas needing improvements to help curb corruption in the public sector. It also may indicate the corporate governance benefits derived from the PAAA and answers the third research question.

5.5.5.4 Progress made in resolving corruption-related material irregularities

The research explores and analyses the progress made in resolving corruption-related MIs. This analysis aims to observe whether the PAAA contributes towards curbing corruption in the public sector. To achieve this objective, the research commences by summarising the MIs reported in accordance with their nature. This is done to discover the diverse audited areas that the AGSA finds vulnerable to MIs; these vulnerable areas are classified into different categories. The results of this analysis should provide the category constantly rising with most MIs to be used to assess the contribution made by the PAAA on curbing corruption (a). From this analysis the research analyses the identified category related to corruption to determine the progress made in resolving this category in terms of loss recovery for all audit cycles (b). The results of this analysis should indicate the total number belonging to this category, the total estimated losses and recovered losses for each audit cycle. These results should be used to trace all the MIs with the recovered losses that should be analysed in accordance with (c) to determine how the losses are recovered to assist in curbing corruption. Lastly, all the actions taken by both AGSA and the audited institutions to address the selected corruption related MIs category should be analysed to discover whether MIs related to corruption are addressed to curb corruption in the public sector (d). The analysis is important as it answers the last research question.

(a) Categories of MIs in accordance with their nature

The research explored and analysed the MIs issued by AGSA in terms of their nature. The aim was to ascertain the overall picture and summary of the MIs in terms of their nature. This was important for the research as it helped identify those MIs related to corruption for further analysis. To achieve this objective, information providing the nature of MIs was extracted from the AGSA PMFA reports and MIs reports to identify the different categories and subcategories of MIs reported for all audit cycles. This information was summarised by accounting for the total number of each category and its subcategory, the total estimated losses and the total recovered losses. The analysis should provide a clear picture

of the different categories of MIs and help with selecting the category to be analysed further (Appendix 1, section a).

(b) Procurement and payment category

The aim of performing this analysis was to observe the progress made when resolving corruption-related MIs indicated by the recovered losses over the period of the research. This was done to determine whether there were any positive outcomes that could indicate that corruption was curbed through the recovered losses. This was important for the research as it identified the estimated losses, recovered losses, the number of MIs in which the losses were recovered and the amounts of losses not yet recovered. To achieve this objective, information pertaining to MIs belonging to the procurement and expenditure category was extracted from the PFMA report and the MIs Report to identify the procurement and payment category together with its subcategories for all audit cycles for the analysis. This information was summarised to account for the overall total of the main category cascaded to its subcategory, the total estimated losses, and the total recovered losses for each audit cycle (Appendix 1, section b).

(c) Loss recovery in the procurement and payment category

This analysis aimed to break recovered losses identified in the previous analysis down from each MI report in the category related to corruption and determine the proportion of the total estimated losses that were actually recovered and that which remained unrecovered from all the MIs with the recovered losses. This was important for the research as it showed the progress made when recovering losses incurred due to the occurrence of corruption-related MIs. To achieve this objective, information for each MIs report with the recovered losses belonging to the selected category was extracted from the AGSA PMFA reports and the MIs reports for all the audit cycles. For each of these MIs, the total estimated losses, and recovered losses were identified. Furthermore, the unrecovered losses were calculated and the recovery percentages were also calculated to determine the

loss recovery rate (Appendix 1, section c).

(d) Actions taken to address corruption-related material irregularities

The aim of conducting this analysis was to observe the progress made in the actions taken to resolve the corruption-related MIs. This progress indicates the contribution made by both the AGSA and the auditees towards curbing corruption as the PAAA was implemented. This was important for the research as it answered the last research question, determined whether the PAAA might be contributing towards curbing corruption, and in reducing the expectation gap. To achieve this objective, the procurement and payment MIs category information was extracted from the AGSA PMFA reports and MIs reports for all the audit cycles to identify the actions taken to address the procurement and payment category. The analysis may reveal whether the MIs related to corruption were resolved and appropriate actions were taken to resolve MIs. Furthermore it may also indicate the role played by other investigative bodies in curbing corruption (Appendix 1, section d).

The procedures conducted to explore and analyse the data contained in AGSA reports needed to generate good quality research because its contribution to what already existed was tested. The researcher considered the following criteria for this purpose.

5.6 CRITERIA FOR RESEARCH QUALITY

Good qualitative research is evidenced by credibility, transferability, dependability, and confirmability (Guba & Lincoln, 1994:114; Devers, 1999:1165). Devers (1999:1157) argues that these criteria emanate from the traditional criteria used to evaluate both qualitative and quantitative research which are; internal validity, external validity, reliability, and objectivity. The initial focus when evaluating the quality of research was on the extent to which the findings were connected correctly to the phenomenon studied, their generalisability to other similar settings, their replication and whether they were free from bias (Devers, 1999:1157). However due to research developments the advent of the qualitative

methodology required new perspectives for judging the quality of the research, hence, credibility, transferability, dependability and confirmability were used to measure the quality of this qualitative research.

Credibility refers to the degree to which the research findings are truthful and believable; this means that research findings should be truthful (Guba & Lincoln, 1994:114; Devers, 1999:1165). Guba and Lincoln (1994:114) equate credibility with internal validity when assessing the quality of quantitative research strategies for assuring credibility in qualitative research. Strategies for establishing credibility include the use of multiple sources (triangulation) to confirm the findings, searching for disconfirming evidence and subject review (Scott, 1990:8; Devers, 1999:1171). Subject reviews are conducted by supervisors, peers, group members and other research participants to check the credibility of the interpretation and the findings (Devers, 1999:1171). In this research, information from the official AGSA website was obtained from www.agsa.co.za to ensure that the documents used were authentic, genuine and unquestionable as proposed by Scott (1990:7). The method of accessing these documents is explained in section 5.5.4 and the documents are described in section 5.3.1. The information used was contained in reports issued at least annually; as a result, the research triangulates information contained in reports issued in different years. Furthermore, the research searched for disconfirming information in all the reports. This enhanced the level of credibility of the research by ensuring that the findings were within the context of the research.

“Transferability refers to the degree to which research findings can be transferred to other settings” (Devers, 1999:1165). Transferability serves the same purpose as generalisability when assessing the quality of quantitative research (Guba & Lincoln, 1994:114). Strategies for ensuring transferability include a clear description of the research question, the perceptions of the researcher, assumptions made by the researcher, the context of the research, the sampling strategy, and the data collection and analysis methods (Devers, 1999:1168; Creswell, 2014:202). Accordingly, the researcher provided a clear description of

the research paradigm, design, and methodology to ensure transferability.

Dependability refers to the degree to which the assimilation of the research will produce similar or consistent findings (Devers, 1999:1165). Guba and Lincoln (1994:114) equate dependability with reliability when assessing the quality of quantitative research. Methods for ensuring the dependability of the qualitative research include data archiving, the creation of audit trails and skeptical peer reviews (Devers, 1999:1171). The researcher created an audit trail and archived it to ensure the completeness and accuracy of the documents through the Mylife email provided by Unisa as well as by Turnitin and Mendeley. In addition, the researcher's supervisor and co-supervisor provided the needed critical review for dependability. Furthermore, the research was subject to external assessments conducted by an independent examiner.

"Confirmability refers to the degree to which the research findings can be corroborated" from evidence from the research context other than the researcher's subjectivity (Devers, 1999:1165). Guba and Lincoln (1994:114) equate confirmability with objectivity when assessing the quality of quantitative research. Strategies for ensuring confirmability include triangulation, skeptical review and reflective journal keeping (Devers, 1999:1171). These strategies are utilised by the research except for reflective journal keeping due to the nature of the research method used to ensure confirmability.

5.7 ETHICAL CONSIDERATIONS

Creswell (2014:96) recommends that before the researcher begins with the research study, the researcher should apply to the institute of learning to obtain the necessary permission. Ethical clearance was obtained from the Unisa CAS RERC on 7 December 2022 before the data were collected for this research in terms of Unisa's policy on research ethics (Unisa, 2007). Ethics approval was granted for the conceptual research by means of documentary analysis, valid for the period covering 6 December 2022 to 5 December 2025.

5.8 CONCLUSION

This chapter discussed the overall research design. In addition, it described the critical theory paradigm adopted by the researcher, making the ontological, epistemological, methodological and axiological stances of the researcher explicit to conduct good quality research. Furthermore, it provided a clear description of the research context, problem statement and objectives. Furthermore it provided a concise and clear outline of the research approach adopted and also discussed the research methodology. The chapter also discussed the actions taken to ensure good research quality. Lastly, the chapter dealt with the ethical considerations that shaped the research. The next chapter provides the results of implementing this research design.

CHAPTER 6 – RESEARCH FINDINGS

6.1 INTRODUCTION

The aim of this chapter is to present the results and findings of the research after executing the procedures described in Chapter 5 with the aim of understanding and explaining how the enhanced AGSA mandate may contribute towards curbing corruption in the public sector from 2018 to 2022. Based on the data analysis, this chapter identifies, strives to understand and describe how the PAAA was introduced. Thereafter, it examines the status of the reported MIs, and the analysis carried out on the trends observed in the resolved MIs. Furthermore, the chapter presents an analysis of the progress made in resolving corruption-related MIs. This is achieved by presenting and analysing the reported MIs according to their nature to find the most prevalent corruption category that is consistently on the rise. The procurement and payment category (PPC) was identified as the MIs category that is related to corruption and was analysed further to discover the progress made to resolve MIs related to corruption in terms of loss recovery. The losses recovered from each MI reported were analysed to uncover how the losses were recovered from each of these MIs with the recovered losses. Finally, actions taken to address the corruption-related MIs were analysed to observe the progress made to resolve corruption-related MIs.

6.2 PHASING IN OF THE PAAA

The phasing in approach was guided by a step-by-step implementation of the MI definition from 2018 to the 2019 audit cycle when the scope of reporting MIs was focused on reporting non-compliance with the legislation likely to result in material losses (AGSA, 2020a:27). The PAAA was implemented progressively and carried out in gradual stages in accordance with the diverse elements of the definition of MI over a three year period starting on 1 April 2019 (AGSA, 2021a:206; AGSA, 2022f:6). In the second audit cycle (2019-2020) of phasing in of the PAAA the scope of reporting MIs was extended to include non-compliance with or contravention of the legislation resulting in or likely to result in material

loss considering fraud and theft or the breach of fiduciary duty constituting non-compliance with the legislation part of the definition of MIs (AGSA, 2020a:27). The implementation of the PAAA finally considered the full definition of MI in the 2020-2021 audit cycle when all elements of the definition of MI were used to set the scope for MIs to be reported in audits conducted by the AGSA (2021a:206). The phasing in implementation of the amendment was agreed upon by the AGSA and the SCOAG (AGSA, 2019b:24; AGSA, 2020a:27). The reasons for introducing the PAAA in phases were to allow the AGSA to manage the risks associated with the implementation of the amendment effectively, while aligning the AGSA resources responsibly with the demands placed upon the AGSA (2020a:27). To help establish relationships with the public bodies with which the AGSA had to interact when reporting MIs (AGSA, 2020a: 27), and to create an awareness about the amendment in the external environment (AGSA, 2019b:24).

The AGSA acknowledges that Covid 19 pandemic was a challenge for all however it does not state whether this had any impact on its selection decision except the fact that it had to manage risks associated with implementation of the amendment effectively (AGSA, 2020a:7; AGSA, 2020b:1). Nonetheless organizations receiving MIs reports were affected negatively by the pandemic as it caused delays in resolving MIs raised by the AGSA as well as implementing recommendations and remedial actions (AGSA, 2020b:34, AGSA, 2021f: 22, AGSA, 2021f: 35, AGSA, 2021f:37, AGSA, 2021f:43, AGSA, 2022f:68). Therefore, conclusions made in this chapter are made in the light of these facts.

Figure 6.1 shows that in 2018 to 2019, the amendment was implemented in 16 auditees, which were selected based on their audit outcomes and their history of irregular expenditure (AGSA, 2019a:25; AGSA, 2020a:28; AGSA, 2021a:206; AGSA, 2022f:6).

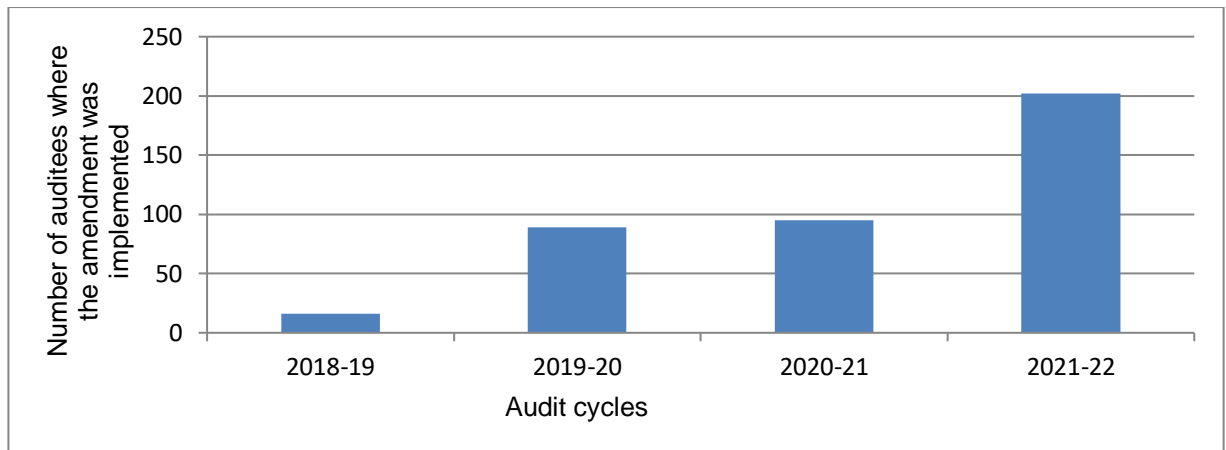


FIGURE 6.1: Amendment implementation
(Compiled by researcher)

This number increased progressively over the years. From 2019 to 2020, the amendment was implemented in 89 auditees (AGSA, 2020a:28; AGSA, 2021a:206), in 95 (2020 to 2021), (AGSA, 2022a:18; AGSA, 2022f:10), and in 202 (2021 to 2022) (AGSA, 2022a:18; AGSA, 2022f:10). The incremental increase of auditees comprised national state departments, provincial departments and public entities, which according to AGSA (2022f:10), were responsible for most of the estimated expenditure budget and were major contributors to government priorities. The next step of the analysis is to understand how the auditees were considered for the implementation within each cycle.

6.2.1 Total auditees considered for implementation of the PAAA

The analysis is taken a step further by examining how the implementation of the PAAA per cycle was implemented. This is done to understand how the PAAA was implemented and gain more insight into the evolution of external auditing in corporate governance. Table 6.1 provides a summary and the findings of the analysis conducted to determine the total number of auditees audited by AGSA for all audit cycles.

TABLE 6.1: Total auditees considered for implementation of the PAAA

UNITS OF ANALYSIS	REFERENCES	2018-19		2019-20		2020-21		2021-22	
		NO	%	NO	%	NO	%	NO	%
1) Total of all auditees (A)	AGSA, 2019c, AGSA, 2020b, AGSA, 2021b, AGSA, 2022b	768	100%	770	100%	766	100%	762	100%
2) Total of audit not conducted by AGSA (B) % = B/A*100	AGSA, 2019c, AGSA, 2020b, AGSA, 2021b, AGSA, 2022b	78	10.16%	83	10.78%	82	10.70%	82	10.76%
3) Total of auditees audited by AGSA (C) = A - B % = C/A*100	AGSA, 2019c, AGSA, 2020b, AGSA, 2021b, AGSA, 2022b	690	89.84%	687	89.22%	684	89.30%	680	89.24%

(Source: PFMA Consolidated report for national and provincial audit outcome - 2018-19, 2019-20, 2020-21 & 2021-22, Annexure 1 – 2018-19, 2019-20, 2020-21, & 2021-22, Annexure 5 - 2020-21, & Material Irregularities in National and Provincial Government: Status at 15 April 2022, & 30 September 2022)

Table 6.1 shows the total number of organs of state and public entities that were eligible for audits in each audit cycle. These were 768 (2018-19), 770 (2019-20), 766 (2020-21) and 762 (2021-22) (AGSA, 2019c; AGSA, 2020b; AGSA, 2021b, AGSA, 2022b). However, not all these auditees were audited by the AGSA. Some were audited by private audit firms (AGSA, 2019c; AGSA, 2020b; AGSA, 2021b; AGSA, 2022b). As a result, the total number of audits conducted by AGSA was less than the actual number

of auditees eligible for annual audits in all the audit cycles (AGSA, 2019c; AGSA, 2020b; AGSA, 2021b; AGSA, 2022b). The total audits conducted by AGSA were 690 (2018 to 2019), 687 (2019 to 2020), 684 (2020 to 2021), and 680 (2021 to 2022) (AGSA, 2019c; AGSA, 2020b; AGSA, 2021b; AGSA, 2022b).

The AGSA audited approximately 89% of all government organs and state entities in each audit cycle during the period under review, while approximately 11% were audited by private audit firms (AGSA, 2019c; AGSA, 2020b; AGSA, 2021b; AGSA, 2022b). This was good for the public sector because no public institution was left unaudited; thereby enabling the exercise of ethical and effective leadership “towards the achievement of an ethical culture, good performance, effective control and legitimacy” (IODSA, 2016:20). Moreover, the AGSA was able to employ more resources in its audits as the private auditor reduces the AGSA workload. However, this may leave a vacant space for the implementation of the PAAA as private audit firms are regulated by the Audit Profession Act No. 26 of 2005 (APA) (RSA, 2005). Therefore, the irregularities identified may only be reported to the relevant regulators in audits conducted by private firms as required by section 45 of the APA (RSA, 2005:s45). Nonetheless the relationship between the AGSA and the private firms auditing public institutions is beyond the scope of this research to identify the reporting duties of the contracted audit private firms, to ascertain the practical implications of the PAAA in these audits. The next step of the analysis determines the number of auditees selected for the implementation of the PAAA.

6.2.2 Auditees selected for PAAA implementation

The preceding section provided the number of auditees eligible for selection for the implementation of the PAAA. This section describes the actual numbers of auditees selected for the implementation of the PAAA and those that received MIs reports in the reviewed period. This is done to understand the rate at which the PAAA was introduced and consider if there are any specific issues needing special consideration in the implementation process. The auditees selected were responsible for most of the estimated expenditure budget, were also key

contributors to government priorities, and had a history of irregular expenditure and negative audit outcomes (AGSA, 2019a:25; AGSA, 2020a:28; AGSA, 2022f:10). Table 6.2 contains a summary and findings on the analysis done on the selected auditees for the implementation of the PAAA.

TABLE 6.2: Auditees selected for PAAA implementation

UNITS OF ANALYSIS	REFERENCES	2018-19		2019-20		2020-21		2021-22	
		NO	%	NO	%	NO	%	NO	%
5) Total number of auditees selected for implementing the amendment (D) % = D/A*100	AGSA, 2019a:25, AGSA, 2020a:28, 2021a:206, AGSA, 2022f:10,	16	2.32%	89	12.95%	95	13.89%	202	29.71%
6) Auditees annually added for implementing amendment (E) = D – previous cycle's D % = E/A*100		16	2.32%	73	10.63%	6	0.88%	107	15.74%
7) Total audits conducted by AGSA not affected by amendment (F) = C–D % = F/C*100		674	97.68%	598	87.05%	589	86.11%	478	70.29%
8) Auditees with MIs where amendment was implemented (G) % = G/D*100	AGSA, 2022f	8	50%	19	21.35%	37	38.95%	65	32.18%

(Source: PFMA Consolidated report for national and provincial audit outcome - 2018-19, 2019-20, 2020-21 & 2021-22, Annexure 1 – 2018-19, 2019-20, 2020-21, & 2021-22, Annexure 5 - 2020-21, & Material Irregularities in National and Provincial Government: Status at 15 April 2022, & 30 September 2022).

Table 6.2 indicates that in 2018 to 2019, 16 out of 690 institutions audited by AGSA were selected for implementation of the amendment, resulting in 674 auditees not being selected for the implementation of PAAA (AGSA, 2019a:25; AGSA, 2019c; AGSA, 2020a:28; AGSA, 2021a:206; AGSA, 2022f:6). In the next audit cycle (2019 to 2020), the AGSA increased its selection with 73 auditees, leading to a cumulative total of 89 representatives of the AGSA's audit population, which was 687 in that audit cycle (AGSA, 2020a:28; AGSA, 2020b; AGSA, 2021a:206). Consequently, 598 auditees were not selected for the implementation of the PAAA in the 2019 to 2020 audit cycle. From 2020 to 2021, 589 auditees were not selected for the implementation of the amendment, while 95 auditees were selected (AGSA 2021b; AGSA, 2022a:18; AGSA, 2022f:10). Finally, from 2021 to 2022, the AGSA made an additional selection of 107, resulting in a cumulative total number of 202 auditees selected up to the 2021 to 2022 audit cycle, leaving 478 not selected (AGSA, 2022a:18; AGSA, 2022b; 2022f:10). Not all the auditees selected for implementation of the PAAA, received MIs reports during the period under review. From 2018 to 2019, eight out of 16 auditees selected for implementation of the PAAA, received MIs reports, 19 out of 89 (2019 to 2020), 37 out of 95 (2020 to 2021), and 65 out of 202 (2021-22) (AGSA, 2019a:25; AGSA, 2020a:28; 2021a:206, AGSA; 2022f:10).

The analysis shows that 97.68% of the auditees audited by AGSA were not selected for the implementation of the amendment from 2018 to 2019, 87.05% (2019-20), 86.11% (2020 to 2021), and 70.29% (2021 2022) (AGSA, 2019a:25; AGSA, 2019c; AGSA, 2020a:28; AGSA, 2021a:206; AGSA, 2022f:6). The following percentages represent the progressive implementation commencing in the 2019 to the 2020 audit cycle to 2021 to 2022 consecutively: 10.63% of the auditees, leading to a cumulative total of 12.95% representative of the AGSA's audit population, 0.88% leading to 13.89% and 15.74% leading to 29.71% (AGSA, 2019a:25; AGSA, 2020a:28; 2021a:206; AGSA, 2022f:10). Thus, an average of 585 $((674+598+589+478)/4)$ auditees were not selected for the implementation of the amendment over the period under review. The above trend

indicates that a large number of auditees were not selected for the implementation of the PAAA.

The figures paint a bleak picture of the fight against corruption in a country rated by Transparency International in its 2023 corruption index with a score below the average of 41, indicating that it was one of the countries with high levels of corruption (TI, 2023:2). The high volume of auditees not selected for the implementation of the PAAA in all the audit cycles under review shows the resource limitation crisis faced by the public sector, limiting the capacity to deliver on public mandate considering all stakeholders. INTOSAI (2019d:7) asserts that corporate governance in the public sector implies competent public servants. Nonetheless, the progressive implementation of the amendment capacitated more and more institutions to exercise ethical and effective leadership towards the achievement of an “ethical culture, good performance, effective control and legitimacy” (IoDSA, 2016:20).

It should be noted that the PAAA is a mechanism designed to reduce the audit expectation gap (Salehi, 2011:8390; Quick, 2020:7). Thus, its progressive implementation was a positive step in addressing the critique voiced by Mennicken and Power (2013:1), claiming that good external audit practice does not exist; neither does it fulfill the desire for prioritising corruption in audit engagements (Amundsen, 1999; Modugu, *et al.*, 2012; Nelje & Claesson, 2014; Kassem & Higson, 2016; Ahyaruddin & Azmi, 2019; Jeppesen, 2019; Agyemang *et al.*, 2020). The PAAA was implemented at a low rate by the AGSA as agreed with SCOAG, because the implementation rate is so low, the full impact of the amendment cannot be established.

6.3 THE STATUS OF REPORTED MATERIAL IRREGULARITIES

The AGSA is required by the PAAA to notify the AO/AA immediately, about a MI identified during an audit and grant the AO/AA twenty (20) working days to respond to the MI. The AGSA may also refer the MI to any relevant public body if further investigations are required (RSA, 2018:s3). The AO/AA is required to

provide the AGSA with a written response after receiving the MI stating the appropriate actions taken or to be taken to address the MI reported by AGSA (2019a:s3(2)(c)). After that, the AGSA evaluates if the response received is appropriate (AGSA, 2019b:29). If the AGSA is of the view that the response is not appropriate, it issues recommendations which must be implemented by the AO/AA to resolve the MI specifying the deadline for implementation of its recommendations (AGSA, 2020a:30; AGSA, 2019a:s4(3)). Furthermore, the AO/AA should implement the recommendation within the time period stipulated by AGSA. When the AGSA recommendations are not implemented within the time period provided in the audit report, the AGSA issues details of the binding remedial actions to be taken (AGSA, 2019a:s9(1)).

The AGSA follows up on the implementation of the binding remedial actions; if the binding remedial actions are not implemented; the AGSA may issue a CoD to the AO/AA. The aim of the analysis conducted in this section is to identify the precise number of MIs issued by the AGSA, which determines whether adequate attention was given to the reported MIs during the research period, and to determine the overall actions taken when addressing the issued MIs in all the audit cycles. The next step provides the results of the procedures conducted in this analysis.

6.3.1 Reported material irregularities

The number of MIs reports issued by AGSA may indicate the functioning of the PAAA. This section aims to determine the number of MIs issued by AGSA, the number of MIs reports with adequate responses provided by AOs/AAs after the AGSA evaluation, and the number of MIs reports evaluated by the AGSA. This provides the total number of evaluated MIs for each audit cycle to be analysed further in the next step. Table 6.3 provides a summary and findings of this analysis.

TABLE 6.3: Reported material irregularities

UNITS OF ANALYSIS	REFERENCES	2018-19		2019-20		2020-21		2021-22	
		NO	%	NO	%	NO	%	NO	%
1) Total of auditees audited by AGSA (C)	AGSA, 2019c, AGSA, 2020b, AGSA, 2021b, AGSA, 2022b	690	100%	687	100%	684	100%	680	100%
2) Number of MIs reported for the year (H)	AGSA, 2019b:28, AGSA, 2020a:33, 2021a:206, AGSA, 2022a:23, AGSA, 2022f:6	28		75		131		179	
3) Number of MIs reports awaiting response on audit cut-off date (I) % = I/H*100	AGSA, 2020a:33, AGSA, 2021a:206, AGSA, 2022a:23, AGSA, 2022f:15	0	0%	30	40%	32	24.42%	8	4.47%
4) Number of reported MIs included in audit reports (J) % = J/H*100	AGSA, 2019b:28, AGSA, 2020a:33, AGSA, 2021a:206, AGSA, 2021f:44, AGSA, 2022f:16	28	100%	45	60%	99	75.57%	158	88.27%
5) Number of MIs responses evaluated by AGSA on audit cut-off date (K) % = K/H*100	AGSA, 2021a:206, AGSA, 2021f:1, AGSA, 2022a:23, AGSA, 2022f:15	0	0%	0	0%	26	19.85%	34	18.99%

6) Number of evaluated MIs status reports (L) = J – K % = L/H*100	AGSA, 2019b:28, AGSA, 2020a:33, AGSA, 2021a:207, AGSA, 2021f:1, AGSA, 2022a:23, AGSA, 2022f:15	28	100%	45	60%	73	55.73%	124	69.27%
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(Source: PFMA Consolidated report for national and provincial audit outcome - 2018-19, 2019-20, 2020-21 & 2021-22, Annexure 1 – 2018-19, 2019-20, 2020-21, & 2021-22, Annexure 5 - 2020-21, & Material Irregularities in National and Provincial Government: Status at 15 April 2022, & 30 September 2022)

The following analysis seeks to determine the number of MIs issued by AGSA. Table 6.3 shows that the AGSA reported 28 MIs (2018 to 2019), 75 (2019 to 2020), 131 (2020 to 2021), and 179 (2021 to 2022) (AGSA, 2019b:28; AGSA, 2020a:33; 2021a:206; AGSA, 2022a:23; AGSA, 2022f:6). Table 6.1 indicated that MIs reports were issued to a total of eight auditees selected for the implementation of the amendment in 2018 to 2019, 19 (2019 to 2020), 37 (2020 to 2021), and 65 (2021 to 2022). This trend indicates that for each audit cycle, there was an increase in the number of MIs reported. This progress made when the AGSA was implementing the PAAA contributes towards the reduction of the audit expectation gap, as suggested by Quick (2020:7), as the amendment to the PAAA is a strategy to address the audit expectation gap. It also reflected the role played by the AGSA in mitigating agency problems claimed by Ashbaugh and Warfield (2003:3). The progress made also informed the relevant stakeholders about how public institutions were managed (Sikka, 2017:1; Munoz-Izquierdo, *et al.*, 2019:404). Furthermore, it corroborates the claim made by Nelje and Claesson (2014:4) and Jeppessen (2019:1) that external auditors are responsible for protecting and preserving the interest of the public.

However, the audited institutions did not provide the AGSA with responses to all the issued MIs reports on the cut-off date due to time constraints (AGSA, 2022a:23). The number of these MIs reports were 30 (2019 to 2020), 32 (2020 to 2021), and eight (2021 to 2022) (AGSA, 2020a:33; AGSA, 2021a:206; AGSA, 2022f:15). As a result, these MIs were not included in the AGSA audit reports. Consequently, the AGSA only included 28 (2018 to 2019); 45 (2019 to 2020), 99 (2020 to 2021), and 158 (2021 to 2022) in its audit reports (AGSA, 2019b:28; AGSA, 2020a:33; AGSA, 2021a:206; AGSA, 2021f:44; AGSA, 2022f:16). At the same time, the AGSA also evaluated some of the responses received from auditees on the cut-off date, these MIs although included in the audit report the action taken to address them were not included. These MIs were 26 (2020 to 2021), and 34 (2021 to 2022) (AGSA, 2021a:206; AGSA, 2021f:1; AGSA, 2022a:23; AGSA, 2022f:15). Thus, the AGSA presented 28 MIs reports indicating the actions taken or the planned actions to address them in audit reports in 2018 to 2019, 45 (2019 to 2020), 73 (2020-21), and 124 (2021-22) as these were completely evaluated by AGSA on the cut-off date (AGSA, 2019b:28; AGSA, 2020a:33; AGSA, 2021a:207; AGSA, 2021f:1; AGSA, 2022a:23; AGSA, 2022f:15).

The analysis reveals that the AGSA identified and reported MIs to 50% of the auditees selected for the implementation of the amendment in the 2018 to 2019 audit cycle, 21.35% (2019 to 2020), 38.95% (2020 to 2021), and 32.18% (2021 to 2022) (AGSA, 2022f). This indicates that there is a decline in the proportion of auditees receiving MIs of the total selected for implementation of the PAAA over the period under review. However, the perceived role of external auditing of being a watchdog over the finances of the audited institution claimed by the INTOSAI (2019c:16) is substantiated. Furthermore, in its audit reports, the AGSA did not include 40% of the MIs reported in 2019 to 2020, 24.42% (2020 to 2021), and 4.47% (2021 to 2022) because it was still waiting for responses from auditees on the cut-off date (AGSA, 2020a:33; AGSA, 2021a:206; AGSA, 2022f:15). Hence, the AGSA audit reports only contained 60% of the MIs reported in 2019 to 2020, 75.57% (2020 to 2021), and 88.27% (2021 to 2022) of the reported MIs

(AGSA, 2019b:28; AGSA, 2020a:33; AGSA, 2021a:206; AGSA, 2021f:44; AGSA, 2022f:16). Moreover, the AGSA did not complete its evaluation of the responses provided by auditees to the reported MIs on the cut-off date in 19.85% of the MIs reports in the 2020 to 2021 audit cycle, and 18.99% (2021 to 2022) (AGSA, 2021a:206; AGSA, 2021f:1; AGSA, 2022a:23; AGSA, 2022f:15).

The analysis shows that the audit reports did not contain all the information relevant to actions taken to address the reported MIs. Therefore, the omitted information in the audit reports may have a negative impact on the credibility of the information of the audited institutions used by stakeholders (Pompitakan, 2004:266). Consequently, the next section analyses all the MIs issued in the 2018 to 2019 audit cycle, 60% of the total of MIs reports issued in 2019 to 2020, 55.73% (2020 to 2021), and 69.27% (2021 to 2022) as these were evaluated and actions to address them were available (AGSA, 2019b:28, AGSA, 2020a:33; AGSA, 2021a:207; AGSA, 2021f:1; AGSA, 2022a:23; AGSA, 2022f:15).

In conclusion, based on the above analysis and interpretation, there is an overall indication that the PAAA is functional and is helpful in reducing the audit expectation gap, mitigating the agency problem, fostering accountability and transparency protecting and preserving the interests of the public, although missing information in audit reports may have a negative impact on information credibility. The next section analyses the actions the audited institution and AGSA took in dealing with evaluated MIs.

6.3.2 Resolution of reported material irregularities

This section provides an analysis of the steps taken when addressing the evaluated MIs reports contained in audit reports over the period of the research. This analysis may indicate whether the identified legislative development occurring in the South African public sector is functioning and has any benefits in corporate governance before exploring its possible contribution towards curbing corruption. It should be noted that these actions are classified into two types: those that are emanating from the PAAA and those that were in existence before

the PAAA. Table 6.4 provides a summary and findings of the analysis done to determine the overall actions taken by both the AGSA and auditees to resolve reported MIs. The actions are classified into five types that lead to resolved MIs.

TABLE 6.4: Resolution of reported material irregularities

UNITS OF ANALYSIS	REFERENCES	2018-19		2019-20		2020-21		2021-22	
		NO	%	NO	%	NO	%	NO	%
8) Number of resolved MIs in current year (M) % = M/H*100	AGSA, 2020a:34, AGSA, 2021a:206, AGSA, 2021a:207, AGSA, 2021f:1, AGSA, 2022a:23	0	0%	3	4%	10	7.63%	14	7.82%
9) Number of appropriate actions taken to resolve MIs by auditees (N) % = N/H*100	AGSA, 2019b:28, AGSA, 2020a:34, AGSA, 2021a:207, AGSA, 2021f:1, AGSA, 2022a:23	25	89.29%	33	44%	52	39.69%	91	50.84%
10) Number of recommendations made by AGSA (O) % = O/H*100	AGSA, 2019b:28, AGSA, 2020a:34, AGSA, 2021a:207, AGSA, 2021f:1, AGSA, 2022a:27	2	7.14%	8	10.67%	3	2.29%	8	4.47%
ACTIONS EMANATING FROM THE PAAA									
11) Number of remedial actions issued by AGSA (P) % = P/H*100	AGSA, 2021a:207, AGSA, 2021f:1, AGSA, 2022a:27	0	0%	0	0%	4	3.05%	3	1.68%
12) Number of referrals made by AGSA (Q) % = Q/H*100	AGSA, 2019b:28, AGSA, 2020a:34, AGSA, 2021a:207, AGSA, 2021f:1, AGSA, 2022a:27	1	3.57%	1	1.33%	4	3.05%	8	4.47%
13) Number of certificates of debt issued by AGSA (R) % = R/H*100		0	0%	0	0%	0	0%	0	0%
14) Total number of evaluated MIs (L)		28		45		73		124	

(Source: PFMA Consolidated report for national and provincial audit outcome - 2018-19, 2019-20, 2020-21 & 2021-22, Annexure 1 – 2018-19, 2019-20, 2020-21, & 2021-22, Annexure 5 - 2020-21, & Material Irregularities in National and Provincial Government: Status at 15 April 2022, & 30 September 2022)

6.3.2.1 Material irregularities resolved

An MI is only resolved if the loss (or further loss) resulting from its occurrence is prevented and or any losses incurred have been recovered. Further, appropriate steps have been taken against the officials or party responsible for the loss (AGSA, 2019b:26; AGSA, 2022f:10). There were three resolved MIs in the 2019 to 2020 audit cycle, ten (2020 to 2021), and 14 (2021 to 2022) (AGSA, 2020a:34; AGSA, 2021a:206; AGSA, 2021a:207; AGSA, 2021f:1; AGSA, 2022a:23). There was a progressive increase in the number of MIs resolved from 2018 to 2019 and 2021 to 2022 (AGSA, 2020a:34; AGSA, 2021a:206; AGSA, 2021a:207; AGSA, 2021f:1; AGSA, 2022a:23). The number of resolved MIs increased progressively from 4% of the total MIs reported in 2019 to 2020, to 7.63% (2020 to 2021), and to 7.82% (2021 to 2022), although there were no resolved MIs in 2018 to 2019 audit cycle. There was an increase in the rate of resolved MIs reports over the period under review. This indicates that some of the auditees were taking effective actions to resolve the identified MIs.

The statistics produced in this analysis indicate that the resolved MIs constituted a small proportion of the total number of reported MIs. This might confirm the challenges encountered by AGSA when implementing the PAAA. These challenges include not receiving support from the legislative and executive arm of the state (Deliwe, 2019:47), the non- implementation of consequence management (Nicol, 2020:22), and the unwillingness of the Parliament to hold the executive to account (Nicol, 2020:25). Therefore, the PAAA seems to be functional in ensuring that MIs are given the attention they deserve. Resolved MIs are analysed further in section 6.4. The next section examines the first type of action taken to resolve the reported MIs that do not emanate from the PAAA.

6.3.2.2 Appropriate actions towards resolving material irregularities

In all the audit cycles, significant numbers of auditees took appropriate actions to resolve the reported MIs (AGSA, 2019b:28; AGSA, 2020a:34; AGSA, 2021a:207; AGSA, 2021f:1; AGSA, 2022a:23). In the 2018 to 2019 audit cycle, 25 MIs

reported were addressed by taking appropriate actions to resolve the reported MIs, 33 (2019 to 2020), 52 (2020 to 2021), and 91 (2021 to 2022) (AGSA, 2019b:28; AGSA, 2020a:34; AGSA, 2021a:207; AGSA, 2021f:1; AGSA, 2022a:23). Appropriate actions could include the recovery of financial losses, the prevention of further losses, consequence management and other forms of investigations (AGSA, 2022f:16). Furthermore appropriate actions to resolve some MIs took more time than anticipated when the MIs was identified, reported and responded to. As a result when AGSA evaluated the progress made on correcting the MIs issued in the next audit cycle after implementation, the power to issue recommendations, and remedial actions was not enforced and the actions taken remained appropriate (AGSA, 2022f:17). For example, in cases of prolonged criminal prosecutions and disciplinary hearings, suppliers were liquidated for the recovery of losses, and instability in the key positions of auditees (AGSA, 2022f:19; AGSA, 2022f:20).

The AGSA (2022f:10) asserts that when AAs/AOs responded to the MIs' reports with appropriate workable plans and commitments to resolve the MIs, the intended impact of the PAA amendment was achieved. The significant number of appropriate actions taken by AOs and AAs highlighted the stewardship role played by AOs and AAs advocated by Donaldson and Davis (1991:52), Abid *et al.* (2014:171), Kowala and Šebestová (2021:11). The PAAA served as an empowering tool to those AAs and AOs who exhibit good stewardship qualities as it afforded them a chance to make decisions to protect the wealth of the state (Davis *et al.*, 2018:26; Obermann *et al.*, 2020:994). Figure 6.2 illustrates the trend in appropriate actions taken towards resolving MIs.

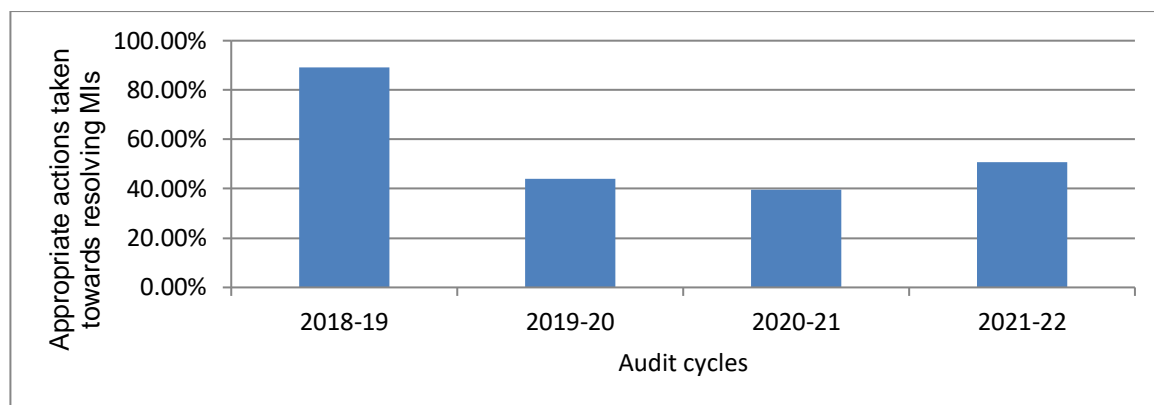


FIGURE 6.2: Appropriate actions towards resolving material irregularities *(Compiled by researcher)*

The figure shows a progressive increase in actions taken by auditees to address the reported MIs. 89.29% of the MIs reported in 2018 to 2019 were addressed by taking appropriate actions, 44% (2019 to 2020), 39.69% (2020 to 2021), and 50.84% (2021 to 2022) (AGSA, 2019b:28; AGSA, 2020a:34; AGSA, 2021a:207; AGSA, 2021f; AGSA, 2022a:23). This indicates that auditees were taking effective appropriate actions to resolve the identified MIs, although the trend of these actions regressed over the reviewed period. Therefore, external auditing proved to be useful in enhancing the truthfulness and reliable financial reporting (IoDSA, 2016:68). Furthermore, there was a progressive increase in cases where appropriate actions were not taken as planned, consequently, the AGSA issued recommendations and remedial actions after their assessment of the responses provided by auditees in 10.71% (7.14% + 3.57%) MIs reports in 2018 to 2019, 12% (10.67% + 1.33%) (2019 to 2020), 8.39% (2.29% + 3.05% + 3.05%) (2020 to 2021), and 10.61% (4.47% + 1.68% + 4.47%) (2021 to 2022). This finding may corroborate the findings of Nzewi and Musokeru (2014:43), Deliwe (2019:54), and Matlala and Uwizeyimana (2020:5) who claim that there was no political and administrative will to correct the aberrations through the implementation of the AGSA recommendations.

Popov, Prykhodchenko, Holynska, Dulina, and Lesyk (2021:138) found that the reluctance of corrupt officials was the cause of auditees not responding to audit

findings and not implementing audit recommendations in their research conducted to determine the role of public audits in the development of socio-economic processes.

6.3.2.3 Recommendations

Recommendations made by AGSA usually deal with the recovery of losses, the prevention of losses and consequence management (AGSA, 2022f:22). The AGSA was not satisfied with responses provided by auditees within 20 days to MIs reports issued by AGSA in two cases of the total number of evaluated reported MIs in 2018 to 2019, eight (2019 to 2020), three (2020-21), and eight (2021 to 2022) (AGSA, 2019b:28; AGSA, 2020a:34; AGSA, 2021a:207; AGSA, 2021f:1; AGSA, 2022a:27). Hence, it made recommendations to ensure that they were adequately addressed. This indicated the role of external auditing in dealing with the divergence of the management's interests from those of the government highlighted in previous research (Donaldson & Davis, 1991:50; Obermann, Velte, Gerwanski, & Kordsachia, 2020:992; Kowala & Šebestová, 2021:10; Raimo, Vitolla, Marrone, Rubino, 2020:524; Antwi, 2021:57; Hashim *et al.*, 2022:75). Figure 6.3 provides a visual depiction of the recommendations made by AGSA over the period under review to resolve the reported MIs.

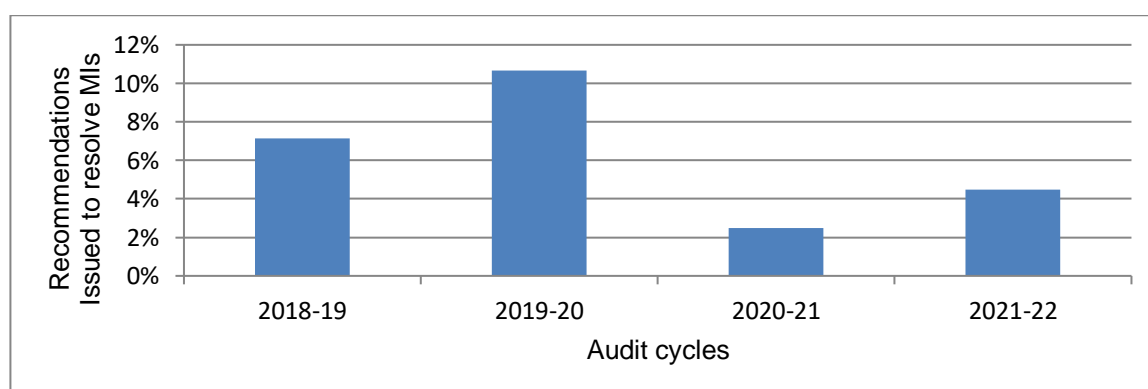


FIGURE 6.3: Recommendations issued by AGSA
(Compiled by researcher)

Figure 6.3 shows that in the 2019 to 2020 audit cycle, the AGSA issued the highest percentage of recommendations (10.67%), because most auditees did not commit themselves to addressing the MIs identified and reported. However, from 2020 to 2021, more auditees took effective steps to ensure that appropriate actions were implemented, yielding the desired outcomes as this was the audit cycle with fewer recommendations than all other audit cycles examined. The trend observed in Figure 6.3 shows that more recommendations were made in the second audit cycle of the period of implementing the amendment. This was the first cycle where AGSA engaged in a follow-up on its reported MIs and evaluated the actions taken to resolve the reported MIs. From 2019 to 2020, the trend of recommendations declined, meaning that auditees were implementing recommendations and were resolving MIs or were issued with binding remedial actions. The next section of the analysis deals with those actions emanating directly from the PAAA.

6.3.2.4 Binding remedial actions

Binding remedial actions are legal actions proposed by AGSA when the auditees fail to implement recommendations made by AGSA to prevent losses, recover losses and effect consequence management (AGSA, 2022f:23). Deliwe (2019:53) asserts that effective AGSA reporting can only be realised when its recommendations are implemented. The PAAA empowered the AGSA to make binding remedial actions to ensure that its recommendations are implemented (RSA, 2018:s3). The 2020 to 2021 audit cycle is the audit cycle during which AGSA started issuing binding remedial actions (AGSA, 2021a:207; AGSA, 2021f:1). In 2020 to 2021, four binding remedial actions were issued by AGSA (2021a:207; AGSA, 2021f:1). According to the AGSA (2022f:23), one of these MIs was resolved in the 2021 to 2022 audit cycle leaving three unresolved MIs with binding remedial actions issued in the period under review (AGSA, 2022a:27).

The AGSA took binding remedial actions in 3.05% of the MIs reports where auditees failed to implement its recommendations in the 2020 to the 2021 audit

cycle (AGSA, 2021a:207; AGSA, 2021f:1). This leads to the conclusion that the amendment was functional and was helpful in dealing with the finding of Nzewi and Musokeru (2014:43) which asserts that AGSA lacks sufficient authority to ensure that its recommendations are acted upon because 1.37% of the MIs with binding remedial actions, were resolved in the 2021 to 2022 audit cycle (AGSA, 2021a:207; AGSA, 2021f:1; AGSA, 2022a:27). Lastly, in their research to find factors that influence the implementation of the AGSA recommendations in South African municipalities, Matlala and Uwizeyimana (2020:5) found that auditees did not take the audit recommendations seriously and the lack of consequence for not implementing the AGSA recommendations was the cause of the non-implementation of the AGSA recommendations. Hence, the issuing of binding remedial actions addressed this finding, although not all binding remedial actions were finalised during the period of the research due to time constraints (AGSA, 2022f:17). The PAAA seems to be functional in ensuring that AGSA recommendations are implemented through the issuing of binding remedial actions and addressed some of the research findings discovered by previous research.

6.3.2.5 Referrals

In addition to the recommendations and binding remedial actions suggested by the AGSA, the AGSA made referrals to investigative bodies and law enforcement agencies (AGSA, 2019b:28; AGSA, 2020a:34; AGSA, 2021a:207; AGSA, 2021f:1; AGSA, 2022a:27; AGSA, 2022f:24). In only one out of the total MIs reported in 2018 to 2019, a referral was made by AGSA, which remained unresolved in 2019 to 2020, in 2020 to 2021, the number of referrals increased to four, and in 2021 to 2022 it increased to eight (AGSA, 2019b:28; AGSA, 2020a:34; AGSA, 2021f:1; AGSA, 2021a:207; AGSA, 2022a:27). No referral was resolved during the period of the research. This supports the findings of Deliwe (2019:47) who states that although the PAAA is a robust method for dealing with corruption, it is only effective when it receives the full support of the legislative and executive arms of the state. Moreover, the AGSA may face the dilemma

highlighted by Mathiba and Lefenya (2019:540) namely; that of being unable to deal with investigative bodies failing to inform the AGSA adequately about their investigation, since the PAAA is silent about the actions to be taken when this happens. The growing number of issued, but unresolved referrals may also be attributed to Alkaster's (2020:50) and Nicol's (2022:24) findings that the electoral system of the country may render the PAAA ineffective.

Referrals made by AGSA during its audits were increasing progressively during the period of the research (AGSA, 2019b:28; AGSA, 2020a:34; AGSA, 2021a:207; AGSA, 2021f:1; AGSA, 2022a:27). These findings may support the findings of Mennicken and Power (2013:9) that suggest the need to improve communication between the regulators and the auditors, so that reportable concerns can be addressed adequately in their research on the role of auditors in systems of corporate governance. In addition, these findings emulate the findings of the ACFE (2022:63) showing that 26% of all cases were filed for civil suits and 42% were referred for criminal prosecutions in its report when dealing with occupational fraud cases internationally. It also substantiates the earlier assertion that the amendment's implementation may be functional because referrals to public investigative bodies made by AGSA were not possible before the implementation of the PAAA. Auditing is found to be an important element of corporate governance and the reporting system, and its role is constant interaction with other government mechanisms (Mennicken & Power, 2013:1). Therefore, the referrals made by AGSA may also indicate that the PAAA was functional during the period of the research.

6.3.2.6 Certificates of debt

Lastly, the AGSA did not issue any CoD from 1 April 2019 when the amendment came into effect, although this period is more than the 18 months period presented as the best case scenario before the issue of the CoD provided by the AGSA in its 2019 to 2020 PMFA report (AGSA: 2020a:32). More than 32 months have elapsed since the date of implementation. The AGSA asserts that all the MIs issued do not qualify to be considered for the issuing of certificates of debt,

those that could be eligible for consideration are the three in the remedial stage, but remedial actions are still being implemented (AGSA, 2022f:24). Hence, the AGSA did not issue any CoD during the period of the research. Therefore, the implementation of the PAAA had not enabled the state to collect funds from officials who had failed to prevent MIs yet. The AGSA asserts that some MIs took more time than anticipated; as a result when AGSA evaluated them in the next audit cycle after implementation, the power to issue CoD was not revoked and the actions taken remained appropriate (AGSA, 2022f:17). For example, in cases of prolonged criminal prosecutions and disciplinary hearings and the liquidated suppliers for the recovery of losses (AGSA, 2022f:19; AGSA, 2022f:20). In summary, the analysis of the reported MIs revealed the likelihood that the PAAA might be functional. The next section addresses the trends in resolved MIs.

6.4 TRENDS IN RESOLVING MATERIAL IRREGULARITIES

An MI is only resolved if the loss (or further loss) resulting from the MI is prevented and or any losses incurred have been recovered and further appropriate steps have been taken against the officials or party responsible for the loss (AGSA, 2019b:26; AGSA, 2022f:10). The analysis conducted in this section examines the outcomes of the resolved MIs to determine whether the actions taken to resolve them were implemented appropriately. Table 6.5 provides the results and findings of the procedures performed to explore and analyse the actions taken to address the resolved MIs. The table is a summary of the actions taken by the auditees and other relevant bodies when resolving the 27 MIs (AGSA, 2020a:34; AGSA, 2021a:207; AGSA, 2021f:1; AGSA, 2022a:23). These actions were meant to ensure that the losses (or further losses) resulting from the occurrence of MIs were prevented, and or any losses incurred were recovered and further appropriate steps were taken against the officials or party responsible for the losses (AGSA, 2019b:26; AGSA, 2022f:10). This analysis will help identify the trends when resolving MIs that may suggest areas needing improvements to help curb corruption in the public sector.

TABLE 6.5: Resolved material irregularities

NO	REFERENCES	AUDITEE (Procedure 1)	DATE ISSUED AND PERIOD RESOLVED	QUANTIFIED IMPACT (R) (Procedure 1.1.)	LOSSES RECOVERED (R) (Procedure 1.2)	OUTCOMES (Procedure 2)															
						INVESTIGATED	INVALID FINDING	APPOINTMENT LETTER & SLA INVALIDATED	CONTRACT SET ASIDE CANCELLED	FINDING /CONTRACT RECTIFIED	CONTRACTOR WAIVED CLAIM	EMPLOYEES FACING DC	DC IN PROGRESS	EMPLOYEES DISMISSED	WRITTEN WARNING	EMPLOYEES FINED	INTERNAL CONTROL IMPROVED	NO LOSS RECOVERABLE	LOSSES RECOVERED	LOSS WRITTEN OFF	RECOVERY IN PROGRESS
1	AGSA, 2022f:34	Human settlement (EC)	30-Oct-20 2021-22			✓		✓	✓			✓		✓	✓					✓	
2	AGSA, 2022f:34	Human settlement (EC)	30-Oct-20 2021-22			✓		✓	✓			✓		✓	✓					✓	
3	AGSA, 2022f:35	Human settlement (EC)	30-Oct-20 2021-22			✓		✓				✓		✓	✓					✓	
4	AGSA, 2021f:31	Education (FS)	16-Jul-20 2021-22	55.4m		✓						✓		✓	✓	✓				✓	
5	AGSA, 2022g:159	Water Trading Entity	18-Jul-21 2021-22	346m	346m	✓										✓	✓			✓	
6	AGSA, 2021f:30	Education (FS)	7-Jul-20 2020-21			✓			✓			✓		✓	✓					✓	
7	AGSA, 2020a:35	Human settlement (FS)	12-Jul-19 2019-20			✓				✓		✓		✓							
8	AGSA, 2021f:33	Human settlement (FS)	26-Jul-19	0.5m		✓	✓									✓					

NO	REFERENCES	AUDITEE (Procedure 1)	DATE ISSUED AND PERIOD RESOLVED	QUANTIFIED IMPCAT (R) (Procedure 1.1.)	LOSSES RECOVERED (R) (Procedure 1.2)	OUTCOMES (Procedure 2)																	
						INVESTIGATED	INVALID FINDING	APPOINTMENT LETTER & SLA INVALIDATED	CONTRACT SET ASIDE /CANCELLED	FINDING /CONTRACT RECTIFIED	CONTRACTOR WAIVED CLAIM	EMPLOYEES FACING DC	DC IN PROGRESS	EMPLOYEES DISMISSED	WRITTEN WARNING	EMPLOYEES FINED	INTERNAL CONTROL IMPROVED	NO LOSS RECOVERABLE	LOSSES RECOVERED	LOSS WRITTEN OFF	RECOVERY IN PROGRESS	FUTURE LOSS PREVENTED	MATTER STILL INVESTIGATED
26	AGSA, 2022f:101	Department of Public Works and Infrastructure	3-Aug-20 2021-22	0.8m		✓							✓				✓		✓	✓			
27	AGSA, 2022f:110	Passenger Rail Agency of South Africa (Prasa)	17-Jul-19 2021-22	2.2b		✓			✓				✓										
TOTAL (Procedure 1.3 & 2.3)				3.066b	358.81 m	27	3	3	5	2	1	7	2	3	7	1	11	7	3	1	2	13	1
Proportion of resolved MIs (%)						100	11.1	11.1	18.5	7.4	3.7	25.9	7.4	11.1	25.9	3.7	40.7	25.9	11.1	3.7	7.4	48.1	3.7

(Source: PFMA Consolidated report for national and provincial audit outcome - 2018-19, 2019-20, 2020-21 & 2021-22, Annexure 1 – 2018-19, 2019-20, 2020-21, & 2021-22, Annexure 5 - 2020-21, & Material Irregularities in National and Provincial Government: Status at 15 April 2022, & 30 September 2022)

Table 6.5 shows that 27 reported MIs there were resolved during the period of the research (AGSA, 2020a:34; AGSA, 2021a:206; AGSA, 2021a:207; AGSA, 2021f:1; AGSA, 2022a:23). In 20 of these MIs, financial losses due to their occurrence were quantified and amounted to R3.006 billion and in seven MIs reports, losses were not quantified, while R358.81 million was recovered by auditees in three MIs that were reported. The AGSA reports reveal that all 27 MIs reported were investigated (AGSA, 2020a:35; AGSA, 2021f:3; AGSA, 2021f:4; AGSA, 2021f:12; AGSA, 2021f:30; AGSA, 2021f:31; AGSA, 2021f:33; AGSA, 2021f:34; AGSA, 2021f:37; AGSA, 2022f:34; AGSA, 2022f:35; AGSA, 2022f:37; AGSA, 2022f:44; AGSA, 2022f:46; AGSA, 2022f:52; AGSA, 2022f:57; AGSA, 2022f:70; AGSA, 2022f:79; AGSA, 2022f:88; AGSA, 2022f:96; AGSA, 2022f:101; AGSA, 2022f:110).

Although the 27 MIs were reported to have been resolved, there were disparities between the total estimated loss of approximately R3.006 billion resulting from 74.07% of MIs and the total amount of approximately R358.81 million, actually recovered from 11.11% of the MIs. The quantified estimated losses excluded 25.9% ($7/27 \times 100$) of unquantified estimated losses. This means that the estimated losses on the reporting cut-off date for the resolved MIs were understated because AOs and AAs had not quantified financial losses in 25.9% of the resolved MIs. These findings corroborate the findings of the ACFE (2022:65), where it was discovered that in the Sub-Saharan African region, 52% of losses were not recovered, 11% recovered and 37% recovered partially. Therefore, MIs with unquantified losses contribute to the state's inability to make informed decisions about the amount to allocate to irregular, fruitless and wasteful expenditure highlighted by Makwetu (2019:1). Furthermore, it makes the recovery of losses impractical. Nonetheless, the AGSA argues that the quantification of losses needs more time (AGSA, 2022f:17).

The results of analysing the actions taken to address the resolved MIs indicate that in one out of the 27 MIs, the contractor waived the claim against the state, and/or employees were fined, and/or the losses were written off, and/or the case

was still under investigation (AGSA, 2020a:35; AGSA, 2020a:37; AGSA, 2021f:3; AGSA, 2021f:30; AGSA, 2021f:31; AGSA, 2021f:37; AGSA, 2022f:34; AGSA, 2022f:35; AGSA, 2022f:79; AGSA, 2022f:101). This indicates that the implementation of the PAAA was achieving its objective.

In two out of the 27 MIs reports, the contractor rectified the finding, and/or disciplinary actions were in progress, and/or loss recovery was in progress (AGSA, 2020a:35; AGSA, 2021f:30; AGSA, 2021f:31; AGSA, 2022f:34; AGSA, 2022f:35; AGSA, 2022f:79; AGSA, 2022f:101; AGSA, 2022f:110). Further, in three out of the 27 MIs reports, the MIs were invalid, and/or the appointment letters and service level agreements were invalidated, and/or employees were dismissed, and/or the losses were recovered (AGSA, 2020a:35; AGSA, 2021f:30; AGSA, 2021f:31; AGSA, 2021f:33; AGSA, 2021f:34; AGSA, 2022f:34; AGSA, 2022f:35; AGSA, 2022f:79; AGSA, 2022f:101). This also shows that the PAAA may be functional.

In five out of the 27 MIs reports the contracts were set aside or cancelled, and in seven out of the 27 MIs reports, employees faced disciplinary action, and/or written warnings were issued to employees found responsible for the MIs, and/or no losses were recoverable (AGSA, 2020a:35; AGSA, 2021f:4; AGSA, 2021f:30; AGSA, 2021f:31; AGSA, 2022f:34; AGSA, 2022f:35; AGSA, 2022f:46; AGSA, 2022f:70; AGSA, 2022f:79; AGSA, 2022f:96; AGSA, 2022f:101). Moreover, in 11 MIs out of the 27 MIs reports, internal controls were improved, and in 13 out of the 27 MIs reports, future losses were prevented (AGSA, 2020a:35; AGSA, 2021f:30; AGSA, 2021f:31; AGSA, 2021f:34; AGSA, 2022f:34; AGSA, 2022f:35; AGSA, 2022f:46; AGSA, 2022f:52; AGSA, 2022f:57; AGSA, 2022f:96; AGSA, 2022f:70; AGSA, 2022f:79; AGSA, 2022f:88; AGSA, 2022f:101; AGSA, 2022f:110).

In 3.7% of the 27 resolved MIs, the MIs were under investigation although they were reported resolved. In 7.4% of the cases, losses were still recovered and disciplinary action was in progress, but these were also reported to be resolved. In 3.7% of the 27 MIs, losses were written off, while 25.9% of the losses were not

recoverable. This was due to the fact that auditees had no funds to make the required payments, resulting in the incurrance of penalties and interest. In some cases, the AOs and AAs decided not to recover debts as they were not associated with misconduct, and, in some cases, it was not viable to recover the losses (AGSA, 2021f:30; AGSA, 2020a:35; AGSA, 2022f:46; AGSA, 2022f:70; AGSA, 2021f:4; AGSA, 2020a:35; AGSA, 2022f:96). The analysis indicates that there is a need to ensure that identified MIs reported by AGSA are resolved adequately. The AGSA reports reflect that although findings are said to be resolved, not all actions to render them resolved, have materialized adequately.

40.7% of the resolved MIs resulted in improved internal controls reducing the opportunity for corrupt activities. In 25% of the resolved MIs, the responsible employees faced disciplinary action leading to the achievement of the PAAA objective regarding consequence management (AGSA, 2019b:26; AGSA, 2022f:10). However, there were still resolved MIs where disciplinary actions were not instituted. This may support Klitgaard's (2006:302) finding that there is strong political pressure not to uncover, prosecute and penalise corruption, although this may need to be explored further. The PAAA implementation also facilitated the cancellation, setting aside and invalidation of irregular contracts in approximately 18.5% of the cases. The reporting and resolution of MIs reports give the impression that the PAAA is assisting with curbing irregularities. The success pertaining to resolving MIs, was due to the AO's and AA's swift actions taken to prevent future financial losses, recover losses, effect consequence management, initiate fraud and criminal investigations and internal control improvements (AGSA, 2022f:6). Now that the research has presented the evidence showing that the PAAA was functional indicating its possible ability to address corruption within the public sector, the research shifts its focus to determine the PAAA contribution towards curbing corruption.

6.5 PROGRESS MADE IN RESOLVING CORRUPTION-RELATED MATERIAL IRREGULARITIES

The research now focuses its attention on the remaining part of the chapter, which addresses the corruption prevention measures required by UNODC (2004:9) to be developed, implemented and maintained by countries to fight corruption. Transparency International (2021:14) proposed that there is need to implement anti-corruption programmes, which include auditing to lessen the consequences of corruption. In Chapter 3, the research established a link between corruption and material irregularity (see section 4.2.2).

In this section, it was shown that the definition of MI includes corruption and extends beyond the scope of corruption to include actions that not only benefit individuals but also result in financial loss to the state. In Chapter 4, it was found that in South Africa, the most corrupt activities reported were maladministration and procurement corruption (CW, 2020:18). Furthermore, South Africa lost billions of Rands of taxpayers' money because of deviation from the accepted supply chain management rules and the expansion of contracts (CW, 2020:49). The AGSA also confirms these findings when it discovered that most money in the public sector was lost in the supply chain processes (AGSA, 2022f:6). These deviations could be the result of corruption identified earlier, which include, amongst others, bribery, extortion, nepotism, embezzlement, misappropriation of property, trading in influence, peddling, abuse of function, illicit enrichment, concealment, obstruction of justice or other personal temptation or inducement or inappropriate and illegitimate conduct performed by officers or authorities for private gain (UNODC, 2004, 17-22; Nelje & Claesson, 2014:3; Mlambo *et al.*, 2023:38).

The ACFE also discovered corroborating evidence to these findings when it discovered that corruption occurred mostly in purchasing departments where goods and services are procured (ACFE, 2018:38; ACFE, 2020:42; ACFE, 2022:50). Furthermore, South African Police Services crime statistics also show that there is an upward trend in commercial crimes this was observed in 2021

and 2022 periods (SAPS, 2022:86).

Chapter 4 also notes that corruption is constantly increasing (ACFE, 2018:10, ACFE, 2020:10, ACFE, 2022:9). Therefore, the research analyses the nature of MIs to determine the most prevalent category that is on the rise. This is used to identify the potential of the PAAA in curbing corruption. Furthermore, the researcher selected the relevant category and analysed it to determine the progress made in resolving this category, using loss recovery as an indicator of the curbed corruption. In addition, the specific MIs that are related to corruption with loss recovery are identified and analysed further to determine how the losses were recovered. Lastly, this research analyses the actions taken by both the AGSA and audited institutions to discover whether MIs related to corruption, are addressed to curb corruption in the public sector. The next section analyses MIs according to their nature to find the category that is most prevalent in corruption and is on the rise in South Africa to achieve the last objective of the research.

6.5.1 Categories of material irregularities in accordance with their nature

The analysis conducted in this section summarises the reported MIs according to their nature. The nature of MIs reveals areas in audited institutions that are vulnerable to MIs. The results of this analysis should provide the category of MIs constantly rising with most MIs that is to be used to ascertain the ability of the PAAA to curb corruption in the public sector as this category has the most corrupt activities. Table 6.6 provides the results and findings of the analysis done to ascertain the overall picture of the MIs according to their nature to identify the most prevalent and rising category related to corruption for further analysis. A referenced Table 6.6 is provided in Appendix 2.

TABLE 6.6: Nature of reported material irregularities

NO	NATURE	REFERENC ES (see appendix 2)	NO				%				ESTIMATED LOSSES R In Billions				RECOVERED LOSSES R In Billions			
			2018-19	2019-20	2020-21	2021-22	2018-19	2019-20	2020-21	2021-22	2018-19	2019-20	2020-21	2021-22	2018-19	2019-20	2020-21	2021-22
1	PROCUREMENT AND PAYMENT		25	53	76	106	89%	67%	63%	59%	2.7	4.651	0.643	3,1	0			0.037
1.1	Uneconomical procurement resulting in overpricing of goods and services procured (PPC3)		11		7	7	39%		6%	4%	0.438		0.017	0.0013	0			0.0005
1.2	Non-compliance in procurement processes resulting in overpricing of goods and services procured OR appointed supplier not delivering (PPC2)		1	29	29	33	4%	46%	24%	18%	2.2	3.204	0.460	2,384	0			-
1.3	Payment for goods or services not received OR of poor quality OR not in line with the contract OR to ineligible beneficiaries (PPC1)		13	24	40	66	46%	21%	33%	37%	0.063	1.447	0.166	0.734	0			0.037

NO	NATURE	REFERENC ES (see appendix 2)	NO				%				ESTIMATED LOSSES R In Billions				RECOVERED LOSSES R In Billions			
			2018-19	2019-20	2020-21	2021-22	2018-19	2019-20	2020-21	2021-22	2018-19	2019-20	2020-21	2021-22	2018-19	2019-20	2020-21	2021-22
2	RESOURCE MANAGEMENT			7	15	20		5%	12%	11%		0.287	0.869	0.796	0			0.004
2.1	Assets not safeguarded, resulting in loss			1	2	2		1%	2%	1%		0.002	0.002	0.002	0			-
2.2	Inefficient use of resources - No or limited benefit derived from the money spent			6	13	18		4%	11%	10%		0.285	0.868	0.794		0		0.004
3	REVENUE MANAGEMENT			4	6	7		26%	5%	4%		1.762	0.455	0.292		0.323		
3.1	Revenue not billed			2	2	2		10%	2%	1%		0.666	0.346			0.323		
3.2	Debt not recovered			2	3	4		16%	2%	2%		1.096	0.109	0.292				-
3.3	Receipts not recorded/deposited				1	1				1%				-				-
4	INTEREST AND PENALTIES		3	11	19	31		11%	2%	16%	17%	0.106	0.151	0.128	0.249	0	0	-
4.1	Payments not paid timely resulting in interest, standing time and penalties		3	11	19	22		11%	2%	16%	12%	0.106	0.151	0.110	0.055	0	0	-
4.2	Tax not paid on time (PAYE & VAT)					9				5%			0.018	0.194				-
5	FRAUD AND COMPLIANCE				5	5				4%	3%			0.002	0.029			0.0002
5.1	Suspected fraud resulting in loss				2	3				2%	2%			0.007				0.0002
5.2	Non-compliance resulting in penalties				3	2				2%	1%			0.002	0.022			-

NO	NATURE	REFERENC ES (see appendix 2)	NO				%				ESTIMATED LOSSES R In Billions				RECOVERED LOSSES R In Billions				
			2018-19	2019-20	2020-21	2021-22	2018-19	2019-20	2020-21	2021-22	2018-19	2019-20	2020-21	2021-22	2018-19	2019-20	2020-21	2021-22	
6	MISUSE OF PUBLIC RESOURCES				1				1%									-	
6.1	Under-utilisation of a material public resource				1				1%									-	
7	HARM TO PUBLIC				9				5%									-	
7.1	Non-submission of financial statements				9				5%									-	
	TOTAL		28	75	121	179	100%	100%	100%	100%	2.807	6.851	2.097	4,484				0.323	0.041

(Source: PFMA Consolidated report for national and provincial audit outcome - 2018-19, 2019-20, 2020-21 & 2021-22, Annexure 1 – 2018-19, 2019-20, 2020-21, & 2021-22, Annexure 5 - 2020-21, & Material Irregularities in National and Provincial Government: Status at 15 April 2022, & 30 September 2022)

The procurement and payment category (PPC) of MIs was the most identified and reported in all the audit cycles reviewed. In 2018 to 2019, 25 MIs were classified under this category, in 2019 to 2020, 53, 76 (2020 to 2021), and 106 (2021 to 2022). This category is made up of three subcategories. Estimated losses for this category were R2.7 billion, R4.651 billion, R0.643 billion and R3.1 billion from the 2018 to 2019 and the 2021 to 2022 audit cycles, respectively. While losses were only recovered in the 2021 to 2022 audit cycle, amounting to R0.37 billion (AGSA, 2019b:28; AGSA, 2020a:33; AGSA, 2021a:221; AGSA, 2021f:1; AGSA, 2022f:12).

The high rate of occurrence of procurement and payment categories could be attributed to the following corrupt activities identified in the previous published literature, namely, conflict of interest, purchase schemes, bribery, invoice kickbacks, facilitation payments, bid rigging, facilitation of payments, fronting, illegal gratuities, collusion, patronage, nepotism, clientelism, and economic extortion (Nelje & Claesson, 2014:3; Alina *et al.*, 2018:568; Board and Fraud, 2018; ACFE, 2020:11; AGSA, 2019b:89-90; AGSA, 2020a:83-84; CW, 2020:17-18).

The next category which was identified and reported is resource management starting from the 2019 to 2020 audit cycle with 7 MIs, 15 (2020 to 2021), and 20 (2021 to 2022). Estimated losses for this category were R0.287 billion, R0.869 billion, and R0.796 billion from the 2019 to 2020, and to the 2021 to 2022 audit cycles consecutively. R0.004 billion was recovered from this category in the 2021 to 2022 audit cycle. This category has two subcategories (AGSA, 2020a:33; AGSA, 2021a:221; AGSA, 2021f:1, 2022f:12).

Revenue management is another category of MIs which was also identified and reported starting from the 2019 to 2020 and the 2021 to 2022 audit cycles. The total number of this category issued was 4, 6, and 7 consecutively. Estimated losses for this category were R1.762 billion, R0.455 billion, and R0.292 billion from the 2019 to 2020 to 2021 to the 2022 audit cycles consecutively. R0.323 billion of the losses were recovered in the 2019 to 2020 audit cycle. This category has three subcategories (AGSA, 2020a:33; AGSA, 2021a:221; AGSA, 2021f:1; AGSA, 2022f:12).

The interest and penalties category was identified as soon as the PAAA was implemented, such as the procurement and payments category, with 3, 11, 19, and 31 MIs identified in the period under review consecutively from the 2018 to 2019, and to the 2021 to 2022 audit cycles. The interest and penalties category constituted 11% in 2018 to 2019 of all the MIs reported in that audit cycle (AGSA, 2019b:28). Estimated losses for this category were R0.002 billion (2020 to 2021), and R0.029 billion (2021 to 2022). No losses were recovered in this category.

This category has two subcategories (AGSA, 2020a:33; AGSA, 2021a:221; AGSA, 2021f:1; AGSA, 2022f:12).

The fraud and compliance category has two subcategories and was identified and reported in the 2020 to 2021 audit cycle with five MIs, it also had five MIs in 2021 to 2022. Estimated losses for this category were R0.001 billion (2020 to 2021), and R0.029 (2021 to 2022). Losses amounting to R0.0002 billion were only recovered in the 2021 to 2022 audit cycle (AGSA, 2021a:221; AGSA, 2021f:1; AGSA, 2022f:12).

The misuse of public resources category has only one subcategory and one MIs of this category was identified in the 2021 to 2022 audit cycle, with no estimated losses. The harm to the public is the last category, which also has one subcategory. Nine MIs of this category were identified in the 2021 to 2022 audit cycle, with no estimated losses (AGSA, 2021a:221; AGSA, 2021f:1; AGSA, 2022f:45; AGSA, 2022f:48; AGSA, 2022f:30; AGSA, 2022f:79).

The PPC are found to be the most prevalent MIs on the rise in all the audit cycles (Table 6.6) (AGSA, 2019b:28; AGSA, 2020a:33; AGSA, 2021a:221; AGSA, 2021f:1; AGSA, 2022f:12). Thus the research selects this category related to corruption for further analysis in the following section.

6.5.2 Procurement and payment category

The analysis conducted in this section is aimed at observing the progress made when resolving the PPC related to corruption to determine the losses recovered from this category, which may serve as an indicator of curbing corruption in the public sector. Table 6.7 provides a summary and findings of the analysis done on the PPC to identify the estimated losses, recovered losses and the number of MIs in which losses were recovered and those that had no recovered losses. A reference Table 6.7 is provided in Appendix 3. The table provides a summary of the PPC cascaded to its subcategories.

Table 6.7: Procurement and payment category

PROCUREMENT AND PAYMENT (PPC)	REFERENCES (see appendix 3)	2018-19			2019-20			2020-21			2021-22		
		NO	AMOUNT	%	NO	AMOUNT	%	NO	AMOUNT	%	NO	AMOUNT	%
ESTIMATED LOSSES		25	2,700,600,000	89%	53	4,651,000,000	67%	76	642,900,000	63%	106	3,119,170,000	59%
RECOVERED LOSSES		0	-	0%	0	-	0%	0	-	0%	6	37,212,090	1%
LOSSES NOT RECOVERED		25	2,700,600,600	100%	53	4,651,000,000	100%	76	642,900,000	100%	100	3,081,957,910	99%
Payment for goods or services not received OR of poor quality OR not in line with contract OR to ineligible beneficiaries (PPC1)													
ESTIMATED LOSSES		13	62,600,000	46%	24	1,447,000,000	21%	40	166,300,000.	33%	66	733,770,000	37%
RECOVERED LOSSES		0	-	0%		-	0%	0	-	0%	5	36,712,090.	5%
LOSSES NOT RECOVERED		13	62,600,000	100%		1,447,000,000	100%	40	166,300,000	100%	61	697,057,910	95%

PROCUREMENT AND PAYMENT (PPC)	REFERENCES (see appendix 3)	2018-19				2019-20				2020-21				2021-22			
Non compliance in procurement processes resulting in overpricing of goods and services procured OR appointed supplier not delivering (PPC2)																	
ESTIMATED LOSSES		1	2,200,000,000	4%	29	3,204,000,000	46%	29	460,100,000	24%	33	2,384,100,000	18%				
RECOVERED LOSSES		0	-	0%	0	-	0%	0	-	0%	0	-	0%				
LOSSES NOT RECOVERED		1	2,200,000,000	100%	29	3,204,000,000	100%	29	460,100,000	100%	33	2,384,100,000	100%				
Uneconomical procurement resulting in overpricing of goods and services procured (PPC3)																	
ESTIMATED LOSSES		11	438,000,000	39%	0	-	0%	7	16,500,000	6%	7	1,300,000	4%				
RECOVERED LOSSES		0	-	0%	0	-	0%	0	-	0%	1	500,000.00	38%				
LOSSES NOT RECOVERED		11	438,000,000	100%	29	-	0.0%	7	16,500,000	100%	6	800,000	62%				

(Source: PFMA Consolidated report for national and provincial audit outcome - 2018-19, 2019-20, 2020-21 & 2021-22, Annexure 1 – 2018-19, 2019-20, 2020-21, & 2021-22, Annexure 5 - 2020-21, & Material Irregularities in National and Provincial Government: Status at 15 April 2022, & 30 September 2022)

Losses in the PPC were only recovered in the 2021 to 2022 audit cycle from six MIs (AGSA, 2021f:1; AGSA, 2022f:12). One MI in which losses were recovered was a PPC3 subcategory, while the other five were the PPC1 subcategory. The total of the recovered losses was R37,119,170,000 (AGSA, 2021f:1; AGSA, 2022f:12). The PPC1 occurred the most amongst the three subcategories of the PPC (AGSA, 2019b:28; AGSA, 2020a:33; AGSA, 2021a:221; AGSA, 2021f:1; AGSA, 2022f:12). The PPC1 had 13 MIs (2018 to 2019), 24 (2019 to 2020), 40 (2020 to 2021), and 66 (2021 to 2022). Estimated losses for the PPC1 were R62,600,000 in the 2018 to 2019 audit cycle, R1,447,000,000 (2019 to 2020), R166,300,000 (2020 to 2021), and R733,770,000 (2021 to 2022). Most of the losses recovered in the PPC were recovered from this subcategory, amounting to R36,712,090 in the 2021 to 2022 audit cycle and in this audit cycle, R697,057,910 was not recovered during the period of the research (AGSA, 2019b:28; AGSA, 2020a:33; AGSA, 2021a:221; AGSA, 2021f:1; AGSA, 2022f:12). Therefore, the state lost more money when it procured and paid for goods which were not delivered and those that were delivered were of a poor quality. This may indicate that employees were pocketing money from the state by making payments to fictitious companies or making payments to legitimate companies for their own benefit and pocketing the difference between the prices paid for goods delivered of a poor quality than the ordered quality in the form of kickbacks for securing or influencing appointment for the supplier for the provision of goods or services. Furthermore, this shows that the state lost money due to services and goods delivered were not in line with the terms of the contracts. In addition it shows that payments were made to illegitimate beneficiaries in the form of ghost employees, and illegal payments.

The PPC2 had one MI reported in the 2018 to 2019 audit cycle, 29 (2019 to 2020 and 2020 to 2021), and 33 (2021 to 2022). Estimated losses for the PPC2 were R2,200,000,000 (2018 to 2019), R3,204,000,000 (2019 to 2020), R460,100,000 (2020 to 2021), and R2,384,100,000 (2021 to 2022). No losses were recovered in this subcategory (AGSA, 2019b:28; AGSA, 2020a:33; AGSA, 2021a:221; AGSA, 2021f:1; AGSA, 2022f:12). The PPC2 includes the transactions which may result

from corrupt activities. The PPC3 had 11 MIs reported in the 2018 to 2019 audit cycle, 7 (2020 to 2021 and 2021 to 2022). Estimated losses for the PPC1 were R438,000,000 (2018 to 2019), R16,500,000 (2020 to 2021), and R1,300,000 (2021 to 2022). Losses were only recovered in one MI report amounting to R500,000 in the 2021 to 2022 audit cycle. In this category, R800,000 was not recovered (AGSA, 2019b:28; AGSA, 2020a:33; AGSA, 2021a:221; AGSA, 2021f:1; AGSA, 2022f:12). These losses resulted from public institutions not selecting suppliers and service providers with competitive prices for the provision of goods and services. As a result, suppliers with high prices are selected. This may result in excess charges regarding the prices being charged by employees or paid as bribes to procure the goods and services from undeserving suppliers and service providers.

The PPC1 occurred the most amongst the three subcategories of the PPC (AGSA, 2019b:28; AGSA, 2020a:33; AGSA, 2021a:221; AGSA, 2021f:1; AGSA, 2022f:12). The PPC1 constituted 46% of all the MIs reported in the 2018 to 2019 audit cycle, 21% (2019 to 2020), 33% (2020 to 2021), and 37% (2021 to 2022) (AGSA, 2019b:28; AGSA, 2020a:33; AGSA, 2021a:221; AGSA, 2021f:1; AGSA, 2022f:12). The PPC1 was followed by the PPC2 (AGSA, 2019b:28; AGSA, 2020a:33; AGSA, 2021a:221; AGSA, 2021f:1; AGSA, 2022f:12). The PPC2 constituted 4% of all the MIs reported in the 2018 to 2019 audit cycle, 46% (2019 to 2020), 24% (2020 to 2021), and 18% (2021 to 2022) (AGSA, 2019b:28; AGSA, 2020a:33; AGSA, 2021a:221; AGSA, 2021f:1; AGSA, 2022f:12). The PPC3, the last category, occurred the least amongst the three subcategories. The PPC3 constituted 39% of all the MIs reported in the 2018 to 2019 audit cycle, 6% (2020 to 2021), and 4% (2021 to 2022) (AGSA, 2019b:28; AGSA, 2020a:33; AGSA, 2021a:221; AGSA, 2021f:1; AGSA, 2022f:12). Therefore, addressing the PPC category will contribute towards curbing corruption in the public sector although the results indicate a slow recovery of the losses incurred. Therefore the PAAA may have the potential to curb corruption.

The average of the quantified estimated losses for the PPC was R2.8 billion $((R2.7b + R4.7b + R0.6b + R3.1b)/4)$ for the period under review. The recovered losses were below the average of the quantified losses. Only 1% of the total estimated losses was recovered in the 2021 to 2022 audit cycle, leaving 99% not recovered during the period of the research (AGSA, 2019b:28; AGSA, 2020a:33; AGSA, 2021a:221; AGSA, 2021f:1; AGSA, 2022f:12). In 2021 to 2022, 5% of the PPC1 estimated losses were recovered and 38% of the PP3 estimated losses were recovered (AGSA, 2019b:28; AGSA, 2020a:33; AGSA, 2021a:221; AGSA, 2021f:1; AGSA, 2022f:12). Therefore, this may indicate that the implementation of the PAAA may have contribute towards curbing bribes, kickbacks and other illegal benefits enjoyed by employees of the state. Furthermore, these actions might have also contributed towards reducing economic extortion to facilitate these transactions. In contrast, during other audit cycles, no losses were recovered. This made the object of recovering losses due to corruption-related MIs possible. These findings may reveal that MIs related to corruption were being addressed during the research period; however the actions taken were not implemented fully. Nonetheless, it looks as if the PAAA may contribute positively towards addressing corruption-related MIs and appear to be helping to curb corruption. The next section analyses the loss recovery of the PPC.

6.5.3 Loss recovery on procurement and payment category

This analysis aims to break down the recovered losses identified in the previous analysis from each MI report in the category related to corruption and determine the proportion of the total estimated losses that are actually recovered as well as the proportion that remains unrecovered of all the MIs with the recovered losses. This is important for the research as it shows the progress made when recovering the losses incurred due to the occurrence of corruption-related MIs. Table 6.8 provides a summary of the findings of the analysis conducted identifying the total estimated losses, and recovered losses and the calculated unrecovered losses and the rate of recovery.

Table 6.8: Loss recovery in the procurement and payment category

DATE REPORTED	NATURE	REFERENCES	TOTAL ESTIMATED LOSSES	TOTAL RECOVERED		UNRECOVERED LOSSES	
12-Feb-21	Uneconomical procurement resulting in overpricing of goods and services procured (PPC3)	AGSA, 2021f:36 AGSA, 2022f:45	1,300,000	500,000	38.5%	800,000	61.5%
29 August 2020 (21/22 report) 18 Sept 2020 (20/21 report)	Payment for goods or services not received / of poor quality / not in line with contract / to ineligible beneficiaries (PPC1)	AGSA, 2021f:41 AGSA, 2022f:58	12,300,000	9,400,000	76.4%	2,900,000	23.6%
13-Aug-19		AGSA, 2020a:36 AGSA, 2021f:5 AGSA, 2022f:79	5,600,000	12,090	0.2%	5,587,910	99.8%
24-Jul-19		AGSA, 2020a:36 AGSA, 2021f:7 AGSA, 2022f:81	103,000,000	4,800,000	4.7%	98,200,000	95.3%
21-Jul-21		AGSA, 2021f:12	12,800,000	12,800,000	100%	-	0%
27-Aug-21		AGSA, 2021f:21 AGSA, 2022f:105	11,000,000	9,700,000	88.2%	1,300,000	11.8%
TOTAL				146,000,000	37,212,090	25.5%	108,787,910

(Source: PFMA Consolidated report for national and provincial audit outcome - 2018-19, 2019-20, 2020-21 & 2021-22, PFMA Consolidated report for national and provincial audit outcome Annexure 5 - 2020-21, & Material Irregularities in National and Provincial Government: Status at 30 September 2022)

The previous analysis revealed that R37,212,090 was recovered from the PPC. The total estimated losses of MIs together with the recovered losses amounted to R146,000,000. R108,787,910 of these losses were not recovered in the reviewed period (AGSA, 2021f:12). One MI resolved in the PPC3 subcategory with recovered losses occurred in March 2020, when 40,000 units of one-litre sanitisers were procured at prices higher than those permissible at the time. The department paid R143 per litre against the set price of R110.40 per litre. The procurement at excessive prices resulted in a financial loss to the state (AGSA, 2022f:45). This MI was resolved by the SIU, which recovered the amount and disciplinary actions were instituted against the responsible officials (AGSA, 2022f:45). These actions advanced better accountability (AGSA, 2022f:9). It was impractical to conclude that corruption was conducted in this MI as there was no evidence to prove that bribery in the form of invoice kickbacks, facilitation payments, illegal gratuities in the form of collusion, patronage, nepotism, and clientelism were the causes as discovered by Ambe and Badenhorst-Weiss (2012:252), Alina *et al.* (2018:568), and ACFE (2020:11). This is because these actions are found to be difficult to trace as no evidence in official documents existed (Klitgaard, 2006:302; Modugu *et al.*, 2012:79; Jeppesen, 2019:4). However if such conduct did occur, in this case, the PAAA was effective in dealing with such actions as the money lost was partially recovered.

The remaining four MIs with partially recovered losses were the PPC1 subcategory. These MIs include an advance payment made to a contractor which was not provided for in the contract (AGSA, 2022f:58), payments made to non-qualifying government employees due to ineffective internal controls (AGSA, 2022f:79), an incorrect grant payment made to a supplier (AGSA, 2022f:81), and higher prices paid than the actual contract price (AGSA, 2022f:105). To resolve these MIs, disciplinary action was taken against the responsible officials; recovery of the losses suffered as a result of the actions of both the suppliers and responsible officials was initiated, and internal controls were improved (AGSA, 2022f:58; AGSA, 2022f:79; AGSA, 2022f:81; AGSA, 2022f:105).

There was only one PPC1 MI category from the resolved MIs from the six MIs where the state was able to recover losses suffered fully (AGSA, 2021f:12). This MI resulted from an overpayment made to a medical service provider between August 2014 and April 2017 due to the lack of effective internal controls for approving and processing payments to medical service providers (AGSA, 2021f:12). In this instance, internal controls were improved, however no official was disciplined as all culprits were no longer in the employment of the auditee when the MI was resolved (AGSA, 2021f:12).

The recovery of these funds was made possible by the interaction of AGSA and auditees with other institutions assisting the AGSA in a Westminster model established by section 181 of the Constitution (RSA, 1996a:s181). Once again, in these cases, any official found to access government funds illegitimately for personal benefit resulting from a conflict of interest in the form of purchase schemes, bribery in the form of invoice kickbacks, bid rigging and facilitation of payments, illegal gratuities in the form of collusion, patronage, nepotism, and clientelism, and economic extortion was dealt with. This corruption could have happened for the following reasons: weaknesses in supply chain management, control over information technology and human resource management, and poor performance management as identified by Ambe and Badenhorst-Weiss (2012:252), Alina *et al.* (2018:568), Board and Fraud, 2018 (ACFE, 2020:11), and AGSA (2020a:221). In these cases, the implementation of the PAAA may result to curbing of corruption.

25.5% of the total estimated losses suffered by the state due to the occurrence of the PPC, were recovered by the state. In only one resolved PPC MI, was the state able to recover 100% of the losses suffered (AGSA, 2021f:12), indicating the potential of the PAAA to function as a measure to curb corruption and recover funds. The AGSA found that lack of effective internal controls for approving and processing payments presented the opportunity for these MIs (AGSA, 2022f:12; AGSA, 2022f:58; AGSA, 2022f:79; AGSA, 2022f:81; AGSA, 2022f:105). This corroborates the assertions made in Chapter four that weak and/or the lack of

controls present an opportunity for corrupt behaviour (ACFE, 2022:42; Ahyaruddin & Azmi, 2019:29; Shore, 2021:95). In some of the cases, no officials were disciplined as all the culprits were no longer in the employment of the auditee when the MI was resolved (AGSA, 2021f:12). The lack of consequence management might have an influence on the rationalisation of corrupt behaviour (Wellen, 2004:7; Schneider, 2011:56; ACFE, 2018:47; Atagan & Kavak, 2018:38; Obermann *et al.*, 2020:999; ACFE, 2022:5). It also reduced the extent of the losses that the state recovered and increased the extent of losses suffered by the state. The state improved internal controls and instituted disciplinary actions to resolve some of the MIs (AGSA, 2022f:58; AGSA, 2022f:79; AGSA, 2022f:81; AGSA, 2022f:105). The results of implementing the PAAA led to the conclusion that it was functional; the evidence presented may indicate that better results would have been achieved if the PAAA had been implemented in all the AGSA audits. Finally, the next section addresses the actions taken to address corruption-related MIs.

6.5.4 Actions taken to address corruption-related material irregularities

The aim of conducting this analysis is to observe the progress made in actions taken to resolve corruption-related MIs. This progress indicates the contribution made by both the AGSA and the auditees towards curbing corruption as the PAAA was implemented. Table 6.9 provides a summary and findings of the analysis conducted to examine the progress made in actions taken to resolve corruption-related MIs by identifying the totals of each type of action taken to resolve them reported in each audit cycle. These are accumulated over the period of the research with the resolved MIs deducted from the totals.

TABLE 6.9 – Addressing corruption related material irregularities

PROCUREMENT AND PAYMENT	2018-19		2019-20		2020-21		2021-22	
	NO	%	NO	%	NO	%	NO	%
TOTAL AT BEGINNING OF AUDIT CYCLE	-	0%	25	67.6%	36	50.7%	65	61.3%
NEW MIs ISSUED DURING AUDIT CYCLE	25	100%	12	32.4%	35	49.3%	41	38.7%
TOTAL ACCUMULATED MIS FOR THE AUDIT CYCLE	25	100%	37	100%	71	100%	106	100%
Accumulating rate per audit cycle of the total	1		0.3		0.5		0.4	
RESOLVED	-	0%	1	2.7%	6	8.5%	11	10.4%
APPROPRIATE ACTIONS	23	92%	26	70.3%	35	49.3%	62	58.5%
RECOMMENDATIONS	1	4%	8	21.6%	2	2.8%	3	2.8%
REFERRALS	1	4%	1	2.7%	2	2.8%	5	4.7%

REMEDIAL ACTIONS	-	0%	-	0%	4	5.6%	3	2.8%
FOLLOW UP ASSESSMENTS	-	0%	-	0%	16	22.5%	11	10.37%
CERTIFICATES OF DEBT	-	0%	-	0%	-	0%	-	0%
Total of actions taken	25		36		65		95	
TOTAL AT END OF AUDIT CYCLE	25	100%	36	98%	65	92%	95	89%

(Source: PFMA Consolidated report for national and provincial audit outcome - 2018-19, 2019-20, 2020-21 & 2021-22, Annexure 1 – 2018-19, 2019-20, 2020-21, & 2021-22, Annexure 5 - 2020-21, & Material Irregularities in National and Provincial Government: Status at 15 April 2022, & 30 September 2022)

The total number of corruption-related MIs issued by AGSA for the period under review was 106, which was a total of 25 MIs issued in the 2018 to 2019 audit cycle, 12 (2019 to 2020), 35 (2020 to 2021), and 41 (2021 to 2022) (AGSA, 2022f:12). One MI related to corruption was resolved in the 2019 to 2020 audit cycle, an additional five were resolved in 2020 to 2021 and an additional five were resolved in 2021 to 2022. Appropriate actions were the most dominant actions taken to address corruption-related MIs, the total number of these actions were 23 (2018 to 2019), 26 (2019 to 2020), 35 (2020 to 2021) and 62 (2021 to 2022). However, some auditees did not address MIs appropriately; as a result, the AGSA made recommendations to correct the MIs and curb corruption.

In the 2018 to 2019 audit cycle, the AGSA made one recommendation to counter corruption-related MIs (AGSA, 2019b:32; AGSA, 2020a:44; AGSA, 2021f:22; AGSA, 2022f:110). An additional seven recommendations were made in the 2019 to 2020 audit cycle, leading to an accumulated total of eight recommendations made by AGSA in that audit cycle (AGSA, 2021f:8; AGSA, 2021f:22; AGSA, 2021f:31-34). In the 2020 to 2021 audit cycle, auditees adequately implemented four of the recommendations made by AGSA in 2019 to 2020, these four MIs were resolved (AGSA, 2021f:31; AGSA, 2021f:33; AGSA, 2021f:34). Four out of the eight recommendations made in the 2019 to 2020 audit cycle remained unresolved. AGSA enforced these four unresolved recommendations through the issue of binding remedial actions after AGSA evaluated the implementation of its recommendations (AGSA, 2021f:8; AGSA, 2021f:22; AGSA, 2021f:32). In the 2020 to 2021 audit cycle, the AGSA made two new recommendations (AGSA, 2021f:5; AGSA, 2021f:18). The two recommendations were adequately resolved in the 2021 to 2022 audit cycle (AGSA, 2022f:79; AGSA, 2022f:101). In the 2021-22 audit cycle, the AGSA issued three new recommendations (AGSA, 2022f:91; AGSA, 2022f:93; AGSA, 2022f:109).

The AGSA referred one MI related to corruption to other public and investigative bodies for further investigation in the 2018 to 2019 audit cycle, when the PAAA was introduced (AGSA, 2019b:33; AGSA, 2020a:47; AGSA, 2021f:43; AGSA,

2022f:68). This MI remained unresolved for the entire period of the research. Further investigations were still pending to resolve the MI. Another referral was done by the AGSA in the 2020 to 2021 audit cycle, increasing the number of referrals made to two (AGSA, 2021f:10; AGSA, 2022f:87). This referral was also not resolved during this study period. In addition to these two referrals, the AGSA made three new referrals in the 2021 to 2022 audit cycle (AGSA, 2022f:41; AGSA, 2022f:96). These also were not resolved during the period under review.

In the first two audit cycles of implementing the amendment, no remedial actions were taken by the AGSA regarding all the MIs reports issued. In the 2020 to 2021 audit cycle, the AGSA issued four binding remedial actions to remedy the MIs discovered and reported in earlier audit cycles (AGSA, 2021f:8; AGSA, 2021f:22; AGSA, 2021f:32). One remedial action was resolved in the 2021 to 2022 audit cycle (AGSA, 2022f:110). Leaving the other three unresolved in the 2021 to 2022 audit cycle (AGSA, 2022f:39; AGSA, 2022f:40; AGSA, 2022f:86). The three remedial actions made in the 2020 to 2021 audit cycle, were not resolved during the period of the research. Figure 6.4 provides a visual depiction of the actions taken by AGSA to resolve the procurement and payment MIs category.

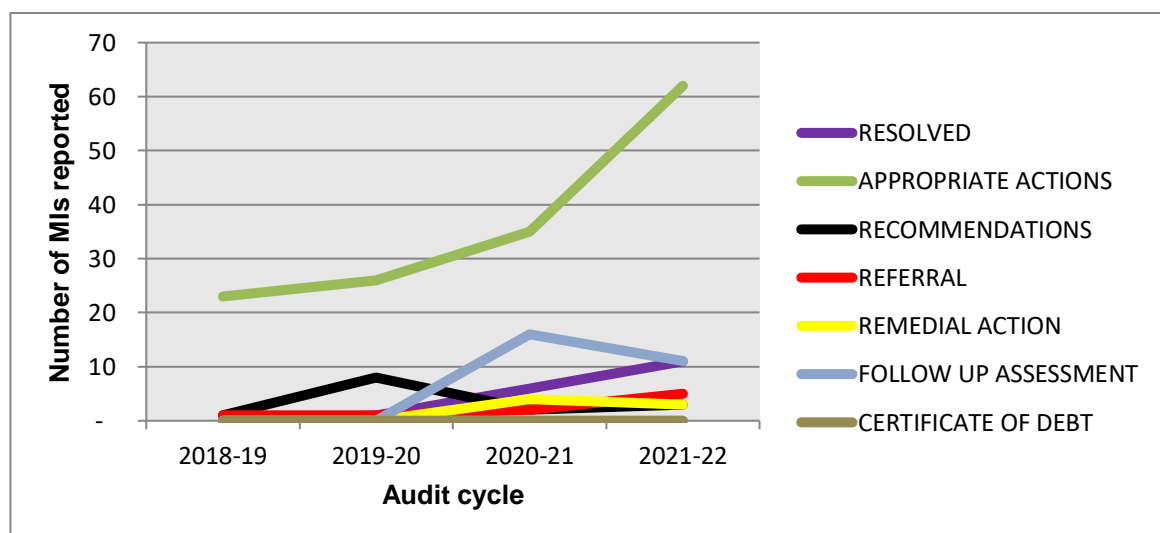


FIGURE 6.4: Addressing corruption-related material irregularities
(Compiled by researcher)

The average number of MIs reports issued for each audit cycle over the period of the research was 26.5 (106/4). The total number of new MIs issued in 2018 to 2019 (25) and 2019 to 2020 (12) were below average, however, in 2020 to 2021 (35) and 2021 to 2022 (41), new MIs issued were above average (AGSA, 2022f:12). There seems to be an indication that the actions taken by AGSA when implementing the PAAA were helpful in curbing corruption in the public sector. The accumulation rates of MIs in the period under review were one (2018 to 2019), 0.3 (2019 to 2020), 0.5 (2020 to 2021), and 0.4 (2021 to 2022). There is a high likelihood that this rate would have shown better results if the PAAA had been implemented in all the populations of auditees audited by AGSA. The analysis shows that 10.4% of MIs related to corruption, were resolved in the period under review. The rate of resolving corruption-related MIs was progressive over the period under review; namely, 2.7% (2019 to 2020), 8.5% (2020 to 2019), and 10.4% (2021 to 2022) (AGSA, 2022f:12). This may indicate the effectiveness of actions taken to resolve corruption-related MIs curbing corruption. 58.5% of appropriate actions taken to resolve MIs related to corruption were observed over the period of the research. Appropriate actions were the most dominant actions in all audit cycles indicating the commitment to deal with corruption-related MIs. However, some auditees did not fulfill their promises and addressed MIs appropriately, as a result, the AGSA made recommendations to correct the MIs (AGSA, 2019b:32; AGSA, 2020a:44; AGSA, 2021f:8; AGSA, 2021f:22; AGSA, 2021f:31-34; AGSA, 2022f:110).

4% of MIs related to corruption contained AGSA recommendations in the 2018 to 2019 audit cycle, these accumulated to 21% (2019 to 2020), and declined to 2.8% (2020 to 2021 and 2021 to 2022) (AGSA, 2019b:32; AGSA, 2020a:44; AGSA, 2021f:8; AGSA, 2021f:22; AGSA, 2021f:31-34; AGSA, 2022f:110). These actions may reveal the seriousness of the AGSA to ensure that MIs related to corruption are resolved and the commitment of auditees to resolve MIs related to corruption. The 5.6% of remedial action made by AGSA in the 2020 to 2021 audit cycle may also reveal the AGSA intentions of eradicating corruption in the public sector, while the 2.8% of implemented remedial action in the 2021 to 2022 audit

cycle ensured that MIs related to corruption were taken seriously (AGSA, 2021f:8; AGSA, 2021f:22; AGSA, 2021f:32; AGSA, 2022f:39; AGSA, 2022f:40; AGSA, 2022f:86). Furthermore, the referrals made by the AGSA were progressive over the period of the study although all these referrals were not resolved during the period of the research (AGSA, 2019b:33; AGSA, 2020a:47; AGSA, 2021f:10; AGSA, 2021f:43; AGSA, 2022f:41; AGSA, 2022f:68; AGSA, 2022f:87; AGSA, 2022f:96). It appears that the AGSA showed its commitment in fighting corruption as it implemented the PAAA during the period under review. In conclusion, the actions taken to resolve MIs related to corruption may have contributed towards curbing corruption and the PAAA was functioning as envisaged, allowing the recovery of lost funds, effecting consequence management and preventing future losses.

6.6 CONCLUSION

The chapter presented the summaries and findings of the analysis conducted to identify, understand and describe how the PAAA was introduced. Thereafter, it presented summaries and findings of the analysis of the status of the reported MIs. Furthermore, it presented summaries of and findings on the analysis done on the resolved MIs. Lastly, the chapter presented summaries of and findings on the analysis carried out on the progress made in resolving corruption-related MIs. The next chapter concludes the research.

CHAPTER 7 – CONCLUSION

7.1 INTRODUCTION

This chapter provides an overview of the research. It also provides a high-level summary of the findings to substantiate the recommendations made. The chapter further identifies areas for further research and discusses the limitations of the research. Finally, the chapter discusses the importance of the research.

7.2 OVERVIEW OF THE RESEARCH

The purpose of the research was to explore how external auditing evolved in corporate governance to curb corruption and address the audit expectation gap in the public sector from 2018 to 2022.

The objectives of the research were as follows:

- To gain an understanding of corporate governance (Chapter 2).
- To understand and describe the benefits of external auditing as a component of corporate governance (Chapter 3).
- To explore the evolution of external auditing in corporate governance (Chapter 3).
- To identify the legislative developments of auditing in the South African public sector, with a specific focus on legislative developments that have occurred in external auditing legislation in South Africa from 2018 to 2022 (Chapters 3 and 4).
- To understand and describe how these developments have contributed towards curbing corruption in South Africa's public sector from 2019 to 2022 (Chapters 4 and 6).
- To understand and describe how the legislative development has contributed towards curbing corruption in South Africa's public sector from 2019 to 2022,

the phasing in of the PAAA by the AGSA was examined (Chapter 6).

This was done to understand the rate at which the PAAA was introduced and observed to determine whether any specific issues needed special consideration in the implementation process. Understanding how the PAAA was implemented is necessary for this research as it provides insight into external auditing evolution in corporate governance. The implementation of the PAAA is a strategy that reduces the audit expectation gap, and may assist in curbing corruption in accordance with the object of the PAA of ensuring auditing of institutions and accounting entities in the public sector (RSA, 2004b:s2).

After that, the research describes the progress made in resolving reported material irregularities reports during the period of this research. This is done to determine whether adequate attention is given to the reported MIs and to determine the overall summary of actions taken to address MIs. These results are important for this research as they may indicate whether the identified legislative development introduced in the South African public sector is functioning and has any benefits in corporate governance before exploring its possible contribution towards curbing corruption.

Furthermore, the research understands and describes the actions taken when addressing the resolved MIs. An MI is only resolved if the loss (or further loss) resulting from the MI is prevented and or any losses incurred have been recovered and further appropriate steps have been taken against the officials or party responsible for the loss. The aim is to observe whether the actions taken to resolve MIs are implemented appropriately. This is important for the research as it helps identify any significant trends when resolving MIs that may suggest areas needing improvements to help curb corruption in the public sector and may also indicate corporate governance benefits derived from the amendment.

After observing the implementation of the PAAA and identifying trends in actions taken to resolve MIs, the research explores and analyses the progress made in resolving corruption-related MIs. This is achieved by analysing MIs issued by

AGSA in accordance with their nature. The aim of this exploration and analysis is to ascertain whether the PAAA helps in curbing corruption in the public sector. In sum, the following primary research question is formulated with relevant sub-questions:

How did external auditing evolve in corporate governance to curb corruption in the South African public sector from 2018 to 2022?

- How was the PAAA implemented in the audit of public sector entities from 2018 to 2022? (Chapter 6)
- What were the trends in the number of reported MIs at auditees where the PAAA was implemented? (Chapter 6)
- What actions were taken to implement the resolution of MIs by auditees where the amendment was implemented? (Chapter 6)
- What actions were taken to address corruption-related MIs by auditees where the amendment was implemented? (Chapter 6)

Chapter 1 provided the background of the research followed by the rationale of the research. Thereafter, it presented the research problem statement, and formulated aims and objectives. Furthermore, it provided the scope and limitations of the research. It also provided a snapshot of the research design and considered the ethical research issues. Finally, it presented the significance of the study. Terms and concepts used are presented at the end of the chapter.

Chapter 2 presented the literature reviewed on corporate governance literature to understand corporate governance. The chapter commenced by discussing the needs of corporate governance resulting from the development of business entities. After that, it defined corporate governance and explained its history to provide the context for the research. In addition, it discussed the underlying theories that form the basis of corporate governance, and also gave a brief overview of corporate governance from a South African perspective.

Furthermore, it described compliance issues and the principles of the King Code on corporate governance. The chapter concluded with a discussion of corporate governance in the public sector.

Chapter 3 defined external auditing, discussed the audit expectation gap and clarified the role of management and external auditors relating to corruption prevention and detection. This chapter also focused on the benefits of external auditing as a component of corporate governance. It presented the evolution of external auditing. Finally, the chapter identified the specific legislative development occurring in the South African auditing legislation from 2018 to 2022.

Chapter 4 defined the term “corruption” and discussed its categories. After that, it linked corruption with the concept of ‘material irregularity’. Furthermore, it presented the drivers of corrupt behaviour and discussed the impact of corruption in the public sector. Finally, the chapter elaborated on public sector auditing and governance.

Chapter 5 presented the philosophical framework adopted by the researcher. After that, it presented the detailed specifications of the research design. It further presented steps taken to preserve the research quality. Finally, the chapter considered the ethical issues.

Chapter 6 uncovered how the PAAA was introduced. It presented the examination conducted on the status of reported MIs and the analysis carried out on the trends observed in the resolved MIs. Furthermore, this chapter presented the analysis conducted on the progress made in resolving corruption-related MIs.

7.3 RECOMMENDATIONS

Actions to mitigate the findings presented, described and discussed in Chapter six are presented in this section. These actions are suggested to enhance the extent to which the PAAA may contribute towards curbing corruption in the public sector.

7.3.1 Phasing in of the PAAA

During the period of the research the AGSA conducted most of the audits in the public sector in all the audit cycles, while a small proportion were conducted by private audit firms (Table 6.1:A & B). The progressive implementation of the PAAA agreed with the SCOAG, may delay the achievements of the objects of the Public Audit Act No. 25 of 2004 (RSA, 2004b) and may also affect the AGSA's delivery of its Constitutional mandate. Therefore, it is recommended that the state should provide sufficient funds from its own coffers to the AGSA for adequate implementation of the PAAA to ensure that the AGSA delivers on its constitutional mandate. These funds will help with AGSA staff training, to ensure that the objects of the PAA are fully realised and assist with addressing the challenges faced by AGSA when implementing the PAAA.

7.3.2 The status of reported material irregularities

There was a progressive increase in the number of MIs issued by the AGSA over the period of the research (Table 6.3). Not all auditees selected for the implementation of the PAAA, received MIs reports during the period of the research because in some of the auditees in which the PAAA was implemented there were no MIs identified and reported during their audits (Table 6.2). Furthermore, the AGSA in its audit reports issued after completing its audits did not include all the MIs reported during the audit cycle. The AGSA did not include MIs reports in audit reports for those MIs reports that were not provided responses by auditees after receipts on the cut-off date (Table 6.3:1). All in all, most MIs reports were contained in audit reports issued during the research period (Table 6.3). Furthermore, the AGSA did not complete its evaluation of the responses provided by auditees to the reported MIs on the cut-off date in some of the MIs contained in its reports (Table 6.3). As a result the actions to address these MIs reports are not contained in audit reports. The omission of MIs information in the audit reports may have a negative impact on the credibility of information used by the relevant stakeholders and may also limit the support the AGSA receives from political leadership.

There was a progressive increase in the number of MIs resolved, referrals, appropriate actions, and binding remedial actions taken to resolve the reported MIs (Table 6.4). No referrals issued by AGSA were resolved during the period of the research (Table 6.4). The majority of the auditees who received MIs reports during the period under review took appropriate actions, although the accumulation of these actions regressed over the period of the research (Table 6.4). Furthermore, there was a progressive increase in cases where appropriate actions were not implemented as planned, consequently, AGSA issued recommendations and remedial actions after their assessment of the responses provided by auditees (Table 6.4). Lastly, no CoD were issued by the AGSA during the research period. It is recommended that the AGSA should include all MIs reported during each audit period in its audit reports and that the AGSA should establish and maintain a MIs register on its website accessible by every citizen to foster transparency and accountability, this may assist in dealing with ineffective structures responsible for resolving AGSA findings.

Furthermore, the Public Audit Act, No. 25 of 2004: Material Irregularities Regulation (MIR) (AGSA, 2019a:s16) prescribes that the AGSA should appoint an advisory committee responsible for advising it regarding issuing Certificates of Debts. Observing the slow progress in actions emanating from the PAAA to resolve MIs, and the absence of Certificates of Debt it is advised that audit committee members of auditees should form part of the AGSA advisory committee established by section 16 of the MIR (AGSA. 2019a:s16). This will ensure that information relating to assurance activities is collated and managed effectively as envisaged by the King Code. Integrating this activity into combined assurance services will reduce information asymmetry by allowing all parties access to the relevant material information. This will also enhance the decision-making process of the advisory committee and may even trigger urgency in delivering the PAAA mandate. This may assist with resolving the findings brought forward in previous research stating that the PAAA is inadequately equipped with provisions for dealing with non cooperating parties when implementing the PAAA.

7.3.3 Trends in resolved material irregularities

Action taken to address the resolved MIs reports are reported to have led to the recovery of a small proportion of the total quantified estimated losses for all the resolved MIs even though this figure was understated due to unquantified losses during the period of the research (Table 6.5). It is reported that internal controls were improved to reduce the opportunity for future occurrences in majority of cases (Table 6.5). The reporting and resolution of MIs reports suggest that the PAAA assisted with curbing irregularities and facilitated the recovery of state funds. The observed success with resolving MIs was reported to be the results of swift actions of AO's and AA's to prevent future financial losses, recover losses, effect consequence management, initiate fraud and criminal investigations and internal control improvements (AGSA, 2022f:6). However, it appears that some MIs were reported as resolved even though actions taken to resolve them were not yet completed. This included those cases where disciplinary actions, loss recovery and investigations were still in progress (Table 6.5). Therefore, the MIs register recommended in the previous section may mitigate these findings and ensure that transparency is achieved.

7.3.4 Categories of material irregularities

The procurement and payment category was the most identified and reported MIs category in all the audit cycles (Table 6.6). The procurement and payment category has three subcategories. The first category, payment for goods or services not received, or of a poor quality, or not being in line with the contract, or allocation to ineligible beneficiaries (PPC1), occurred the most among the three subcategories of the procurement and payment category (Table 6.7). It was followed by the second subcategory, namely, non-compliance in procurement processes, resulting in the overpricing of goods and services procured, or the appointed supplier not delivering (PPC2) (Table 6.7). Uneconomical procurement resulting in the overpricing of goods and services procured (PPC3); the last subcategory occurred the least among the three procurement and payment subcategories (Table 6.7). Recovered losses were below the average of the

quantified losses. Only 1% of the total estimated losses were recovered in this category related to corruption over the period of the study (Table 6.7). Therefore, this research recommends that AGSA should improve the effectiveness of the PAAA and ensure the recovery of losses.

7.3.5 Loss recovery on procurement and payment category

Approximately a quarter of the total estimated losses suffered by the state due to the occurrence of the procurement and payment category related to corruption were partially by the state (Table 6.8). In only one resolved corruption-related MI was the state able to recover 100% of the losses suffered (Table 6.8). The lack of effective internal controls for approving and processing payments presented the opportunity for most of these MIs. In most cases the state improved internal controls and instituted disciplinary actions to resolve corruption-related MIs. However, in some cases, no officials were disciplined as all the culprits were no longer in the employment of the auditees, when the MIs were addressed. The AGSA reports that auditees were unable to hold culprits accountable after leaving employment. Therefore, to mitigate these findings it might be useful and advantageous that consequence management be handled under the auspices of independent bodies that should continue with the disciplinary measures to ensure that culprits are held accountable even if they are no longer employed by the auditees relieving the auditees to focus on their core functions. Although these actions should remain the responsibility of the audited institutions.

The independent bodies may also oversee referrals because, currently, the study finds that no referrals have been resolved resulting from corruption-related MIs. These bodies should not usurp the SCOAG or SCOPA responsibilities but should complement them at micro levels. This may ensure that the losses suffered by the state are recovered and government corruption is rooted out because literature supported by the research indicate that current arrangement are ineffective in addressing this problem as there are officials who are responsible for MIs, but are not disciplined because they are no longer in the employment of the audited institution receiving the MI when the MI is resolved. This should

address the challenge faces by AGSA in relations to ineffective structures for dealing with AGSA findings including ineffective political leadership.

7.3.6 Actions taken to address corruption-related material irregularities

The accumulation rates of MIs in the period under review were regressing (Table 6.9). The rate of resolving corruption-related MIs was progressive over the period under review (Table 6.9) (AGSA, 2022f:12). Appropriate actions were the dominant actions taken by auditees to resolve MIs related to corruption during the period of the research (Table 6.9). Appropriate actions were the most dominant actions in all the audit cycles, indicating the commitment to deal with corruption-related MIs (Table 6.9). However, it seems that some auditees did not comply with proposed actions when addressing MIs related to corruption by implementing appropriate actions, as a result, the AGSA made recommendations to correct the MIs (Table 6.9). Some of the recommendations made by AGSA to deal with corruption-related MIs were resolved over the period of the research (Table 6.9).

Those recommendations not implemented within the period specified in the audit reports by AGSA were followed up, and AGSA made binding remedial actions to ensure that MIs related to corruption were resolved. This ensured that MIs related to corruption were taken seriously (Table 6.9). Furthermore, the referrals made by the AGSA to resolve corruption-related MIs were progressive over the research period, although not all of these referrals were resolved during the research period (Table 6.9). The actions observed in the implementation of the PAAA gave the impression that the amendment was helpful in curbing corruption as it addressed MIs that are related to corruption. To tighten the fight against corruption, it is recommended that the progressive implementation of the PAAA be expedited at a much higher rate, aiming at selecting all the auditees audited by AGSA to realise the full potential of the PAAA in curbing corruption. Furthermore, disciplinary measures overseen by independent bodies should also be implemented. The introduction of the MIs register will also go a long way to foster transparency and accountability in the fight against corruption.

These recommendations may be helpful in solving some of challenges faced by AGSA when implementation the PAAA. They may assist to foster political leadership support, improve effectiveness of the structures responsible for addressing AGSA. Moreover, they may help to deal with PAAA inadequate provisions for dealing with non cooperating parties when implementing the PAAA. Lastly they may also help to address resource constraints faced by the AGSA to fully implement the PAAA.

7.4 AREAS IDENTIFIED FOR FURTHER RESEARCH

In future, similar research could be conducted in the local government sphere of government. Quantitative studies could also be followed to conduct similar research. Further research could also examine the effects of the amendment on those government institutions where the amendment was not implemented to discover whether the implementation had any influence on their activities in dealing with possible MIs that would have been identified if they were selected for the implementation of the amendment. Furthermore, the availability of information will allow future researchers to explore whether the time taken to resolve MIs is appropriate and help suggest improvements. In addition, researchers may examine the financial benefits of the amendment. Further research could also compare and contrast institutions where the amendment was implemented with those not selected for the implementation of the PAAA to examine the amendment's impact.

Case studies could be conducted on those institutions that were selected to implement the amendment but maintained bad audit outcomes continuously to find out the causes of this situation. The outcomes of referrals by AGSA could be examined to determine the existence of corruption and find out if the amendment is helping in curbing corruption within the public sector. Further research could also explore the trends in the audit outcomes of the auditees where the PAAA was implemented, to determine if there is any impact of the PAAA on audit outcomes. In addition, researchers in relevant academic disciplines could explore the legal issues surrounding the progressive implementation of the PAAA.

Further research can research the effects of private audit firms auditing public institutions on the implementation of the PAAA.

7.5 LIMITATIONS OF THE RESEARCH

The researcher only reviewed the literature published in the English language as early as 1776 to 2023 to cover the evolution of external auditing in corporate governance. The research was limited to secondary data from published reports on official websites from 2018 to 2023. This limited the researcher's ability to gain access to complete information. Moreover, the research was bound to a specific period namely: 2018 to 2022 when the PAAA was implemented and the context of this research was only the South African public sector. Therefore, the findings were only applicable to the public sector. Further, Covid 19 pandemic might have had a huge impact on the figures examined by the research thus negatively affecting the research finding. Lastly, generalisation of the findings was neither intended nor possible.

7.6 IMPORTANCE OF THE RESEARCH

The research could assist in understanding the link between corruption and external auditing in the public sector and ascertain whether corruption is curbed by external audits conducted in accordance with the PAAA. In addition, the importance of the research lies in the fact that it explored the implementation of the PAAA, which was a constructive approach to help address the audit expectation gap (Quick, 2020:7). The research provided independent feedback to the AGSA on its implementation of the amended PAA making suggestions which could be used to improve the AGSA performance and contributed to the existing literature. Furthermore, the existing literature revealed that the AGSA recommendations were not always implemented and the research explored whether this situation still persisted after the implementation of the PAAA. The research provided some insight into whether AGSA audits were assisting the state in recovering the funds lost due to corrupt activities. Lastly, the research investigated whether people were held accountable and prosecuted for corrupt

activities identified during the AGSA audits. Not much research had been conducted on this topic; hence this research was amongst the first to research the implementation of the PAAA.

7.7 CONCLUSION

This chapter provided a succinct overview of the research. It offered a high level summary of the findings on which the recommendations were based. In addition, the chapter identified areas for further research. Furthermore, the chapter also highlighted the limitations of this research. Lastly, this chapter indicated the importance of the research.

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APPENDICES

APPENDIX 1: Research procedures

5.5.5.1. Phasing in of the PAAA

The aim of the analysis is to identify, understand and describe how the AGSA phased in the PAAA. To achieve this objective, information relating to the AGSA audits is extracted from the AGSA PMFA reports and MIs reports for each audit cycle to determine the total number of auditees eligible for the implementation of the PAAA, to determine the number of auditees selected for the implementation of the PAAA by the AGSA, and to determine those that received MIs reports. This is done to understand the rate at which the PAAA was introduced, and observe if there are any specific issues needing special consideration in the implementation process. Understanding how the PAAA was implemented is necessary for this research as it provides more insight on external auditing evolution in corporate governance and assist in answering the first research question. The implementation of the PAAA is a strategy that reduces the audit expectation gap, and may assist to curb corruption in accordance with the object of the PAA of ensuring auditing of institutions and accounting entities in the public sector (RSA, 2004b:s2).

Table 5.1 and Table 5.2 contain procedures used for this analysis.

TABLE 5.1: Total auditees considered for implementation of the PAAA

PROCEDURE	2018-19		2019-20		2020-21		2021-22	
	NO	%	NO	%	NO	%	NO	%
1. Identify the population of public sector audits conducted in each audit cycle. The population is referred to as “A”.	P1		P1		P1		P1	
2. Identify and record the number of auditees not audited by the AGSA referred to as “B” for each audit cycle. 2.1. Calculate the proportion of A that is not audited by the AGSA using the following formula and document the percentage in the percentage column for each audit cycle. 2.1.1.B ÷ A × 100	P2	P2.1	P2	P2.1	P2	P2.1	P2	P2.1
3. Calculate the total of auditees audited by the AGSA referred to as “C” for each audit cycle by using the following formula: ✓ A – B 3.1. Calculate the proportion of A, audited by the AGSA using the following formula and document the percentage in the percentage column for each audit cycle.	P3	P3.1	P3	P3.1	P3	P3.1	P3	P3.1

✓ $C \div A \times 100$							
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TABLE 5.2: Auditees selected for PAAA implementation

PROCEDURE	2018-19		2019-20		2020-21		2021-22	
	NO	%	NO	%	NO	%	NO	%
<p>4. Identify the total number of auditees selected in each audit cycle for the implementation of the PAAA referred to as “D”.</p> <p>4.1. Calculate the proportion of C selected for implementation of the PAAA by the AGSA using the following formula and document the percentage in the percentage column for each audit cycle.</p> <p>✓ $D \div C \times 100$</p>	P5	P5.1	P5	P5.1	P5	P5.1	P5	P5.1
<p>5. Calculate the total number of auditees annually added for implementing the amendment in each audit cycle referred to as “E” using the following formula:</p> <p>✓ $E = D - \text{previous audit cycle's D}$</p> <p>5.1. Calculate the proportion of C annually added for implementing the PAAA by the AGSA using the following formula and document the percentage in the percentage column for each audit cycle.</p>	P6	P6.1	P6	P6.1	P6	P6.1	P6	P6.1

<p>✓ $E \div A \times 100$</p>							
<p>6. Calculate total audits conducted by the AGSA not affected by the amendment referred to as “F” for each audit cycle using the following formula:</p> <p>✓ $C - D$</p> <p>6.1. Calculate the proportion of C not affected by the implementation of the PAAA by the AGSA using the following formula and document the percentage in the percentage column for each audit cycle.</p> <p>✓ $F \div C \times 100$</p>	P7	P7.1	P7	P7. 1	P7	P7. 1	P7. 1
<p>7. Identify the total number of auditees receiving MIs reports from the selected auditees for implementation of the PAAA in each audit cycle referred to as “G”.</p> <p>7.1. Calculate the proportion of D receiving MIs reports using the following formula and document the percentage in the percentage column for each audit cycle.</p> <p>✓ $G \div D \times 100$</p>	P8	P8.1	P8	P8. 1	P8	P8. 1	P8. 1

5.5.5.2. The status of reported material irregularities

The aim of conducting this analysis is to identify the precise number of MIs reports issued by AGSA and determine the number of MIS reports that the AGSA completed evaluating responses provided by AOs/AAs during the period of the research. To achieve this objective, information relating to AGSA audits and MIs reports issued by AGSA is extracted from the AGSA PMFA reports and MIs reports for all audit cycles to identify the total number of MIs issued by the AGSA, the number of reported MIs still being considered by AO/AAs for providing responses to the AGSA, and the number of MIs reports with responses that are still being evaluated by AGSA on the cut-off date. The results should provide the precise number of evaluated MIs reports curbing specific actions taken to address the reported MIs. The MIs reports evaluated by AGSA should be analysed further to determine the overall actions taken when addressing them in each audit cycle by identifying and summarising the different actions (i.e. resolve, recommendation issued) taken to resolve evaluated MIs. The results are important for this research as they may indicate whether the identified legislative development occurring in the South African public sector is functioning and has any benefits in corporate governance. The analysis assists in answering the second research question, before exploring its possible contribution towards curbing corruption

To conduct these analyses, procedures contained in Table 5.3 and Table 5.4 are performed.

TABLE 5.3: Reported material irregularities

UNITS OF ANALYSIS	2018-19		2019-20		2020-21		2021-22	
	NO	%	NO	%	NO	%	NO	%
1. Document the total number of institutions audited by AGSA “C” in each audit cycle as identified in Table 5.1.	P1		P1		P1		P1	
2. Identify the total number of MIs reported in each audit cycle referred to as “H”.	P2		P2		P2		P2	
3. Identify the total of number of MIs awaiting responses on audit cut-off date in each audit cycle referred to as “I”.	P3	P3.1	P3	P3.1	P3	P3.1	P3	P3.1
3.1. Calculate the proportion of H awaiting responses on audit cut-off date using the following formula and document the percentage in the percentage column for each audit cycle. ✓ $I \div H \times 100$								
4. Identify the number of reported MIs included in audit	P4	P4.1	P4	P4.1	P4	P4.1	P4	P4.1

<p>reports referred to as “J” for each audit cycle</p> <p>4.1. Calculate the proportion of H included in audit reports in each audit cycle using the following formula and document the percentage in the percentage column for each audit cycle.</p> <p>✓ $J \div H \times 100$</p>								
<p>5. Identify the total of number of MIs responses evaluated by AGSA on audit cut-off date in each audit cycle referred to as “K”.</p> <p>5.1. Calculate the proportion of H with responses evaluated by AGSA on audit cut-off date using the following formula and document the percentage in the percentage column for each audit cycle.</p> <p>✓ $K \div H \times 100$</p>	P5	P5.1	P4	P5.1	P5	P5.1	P5	P5.1

6. Calculate the number of evaluated MIs status reports referred to as “L” for each audit cycle using the following formula: Evaluated MIs are all those MIs that the AGSA completed its determination on the adequacy of planned actions to resolve the MIs and assessed progress on the implementation of its recommendations and remedial actions made in previous audit reports (AGSA, 2022f:15). Evaluated MIs excludes MIs awaiting responses from auditees at cut-off date, MIs resolved in previous audit cycles and those MIs that are still evaluated by AGSA on cut-off date.

✓ $J - K$

6.1. Calculate the proportion of H with evaluated status reports in each audit cycle using the following formula and document the percentage in the relevant percentage column for each audit cycle.

✓ $L \div H \times 100$

P6	P6.1	P6	P6.1	P6	P6.1	P6	P6.1
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TABLE 5.4: Resolution of reported material irregularities

PROCEDURES	2018-19		2019-20		2020-21		2021-22	
	NO	%	NO	%	NO	%	NO	%
<p>7. Identify the total of number of resolved MIs in each audit cycle referred to as “M”.</p> <p>7.1. Calculate the proportion of H resolved using the following formula and document the percentage in the percentage column for each audit cycle.</p> <p>✓ $M \div H \times 100$</p>	P8	P8.1	P8	P8.1	P8	P8.1	P8	P8.1
<p>8. Identify the total of number of MIs with appropriate actions taken to resolve them in each audit cycle referred to as “N”.</p> <p>8.1. Calculate the proportion of H with appropriate actions taken to resolve them using the following formula and document the percentage in the percentage column for each audit cycle.</p> <p>✓ $N \div H \times 100$</p>	P9	P9.1	P9	P9.1	P9	P9.1	P9	P9.1

<p>9. Identify the total of number of recommendations issued by AGSA in each audit cycle referred to as “O”.</p> <p>10.1 Calculate the proportion of H with recommendations made by AGSA using the following formula and document the percentage in the percentage column for each audit cycle.</p> <p>✓ $O \div H \times 100$</p>	P10	P10.1	P10	P10.1	P10	P10.1	P10	P10.1
<p>10. Identify the total of number of MIs with remedial actions issued by AGSA in each audit cycle referred to as “P”.</p> <p>11.1 Calculate the proportion of H with remedial actions issued by AGSA using the following formula and document the percentage in the percentage column for each audit cycle.</p> <p>✓ $P \div H \times 100$</p>	P11	P11.1	P11	P11.1	P11	P11.1	P11	P11.1
<p>11. Identify the total of number of referrals made by AGSA in each audit cycle referred to as “Q”.</p> <p>11.1. Calculate the proportion of H with referrals made by AGSA using the following formula and document the percentage in the percentage column for each audit cycle.</p>	P12	P12.1	P12	P12.1	P12	P12.1	P12	P12.1

✓ $Q \div H \times 100$								
<p>12. Identify the total of number of certificates of debt issued by AGSA in each audit cycle referred to as "R".</p> <p>12.1. Calculate the proportion of H with certificates of debt issued by AGSA using the following formula and document the percentage in the percentage column for each audit cycle.</p> <p>✓ $R \div H \times 100$</p>	P13	P13.1	P13	P13.1	P13	P13.1	P13	P13.1
<p>13. Tally the total for each number column of the table and check if these figures agree with L calculated in using procedure 6 in table 6.2.</p>	P14		P14		P14		P14	

5.5.5.3. Trends in resolved material irregularities

An MI is only resolved if the loss (or further loss) resulting from the MI is prevented and or any losses incurred have been recovered and further appropriate steps have been taken against the officials or party responsible for the loss (AGSA, 2019b:26, AGSA, 2022f:10). The aim of this section is to examine the outcomes of resolved MIs to determine whether actions taken to resolve them were implemented appropriately. To achieve this objective, information showing the outcome of actions taken when addressing resolved MIs is extracted from the AGSA PMFA reports and MIs reports for all resolved MIs to perform further analysis (Appendix 1, section 5.5.5.3). This is important for the research as it helps identify any significant trends when resolving MIs that may suggest areas needing improvements to help curb corruption in the public sector. It also may indicate corporate governance benefits derived from the PAAA and answers the third research question.

To conduct this exploration and analysis the following procedures are conducted.

Review AGSA reports and identify resolved MIs for the period under review and document them in auditee column.

- 1.1. Identify the latest quantified estimated losses for each resolved MI over the period of the study and document the figure in quantified impact column.
- 1.2. Identify the latest recovered losses for each resolved MI over the period of the study and document the figure in the losses recovered column.

Tally the total of the quantified impact column and recovered losses and record the total in the total row at the end of the table.

2. Review all the resolved MIs reports and identify categories of outcomes representing actions taken when resolving MIs.
 - 2.1. Document identified categories of outcomes from all resolved MIs in the outcome column.
 - 2.2. Trace each category to each resolved MI and indicate on the table if that category exists in the MI by placing a tick in the relevant column.
 - 2.3. Count the number of tick(s) in each column and document the total in the total row at the end of the table.
 - 2.4. Calculate the proportion of resolved MIs that is associated with each category by dividing the category total with the total number of resolved MIs and record the figures in the last row of the table.
3. Present the results in the format presented in Table 5.5.

TABLE 5.5: Resolved material irregularities

NO	AUDITEE	DATE ISSUED AND PERIOD RESOLVED	QUANTIFIED IMPCAT (R)	LOSSES RECOVERED (R)	IDENTIFIED CATEGORIES (Procedure 2)																	
					Procedure 2.1	Procedure 2.1	Procedure 2.1	Procedure 2.1	Procedure 2.1	Procedure 2.1	Procedure 2.1	Procedure 2.1	Procedure 2.1	Procedure 2.1	Procedure 2.1	Procedure 2.1	Procedure 2.1	Procedure 2.1	Procedure 2.1	Procedure 2.1	Procedure 2.1	
	Procedure 1		1.1	1.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
	Procedure 1		1.1	1.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
	Procedure 1		1.1	1.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
TOTAL (Procedure 1.3 & 2.3)																						
Proportion of resolved MIs (%) (Procedure 2.4)																						

(a). Categories of material irregularities in accordance with their nature

The research explores and analyses the MIs issued by AGSA in accordance with their nature. The aim is to ascertain the overall picture and summary of the MIs according to their nature. This is important for the research as it helps identify for further analysis those MIs related to corruption. To achieve this objective, information providing the nature of MIs is extracted from the AGSA PMFA reports and MIs reports to identify the different categories and subcategories of MIs reported for all audit cycles. This information is summarised accounting for the total number of each category and its subcategory, total estimated losses and total recovered losses. The analysis should provide a clear picture of the different categories of MIs and help with selecting the category to be analysed further.

To conduct this analysis the following procedures are performed:

1. Review the AGSA reports to identify all reported MIs for the period under review according to their nature as provided by AGSA in its reports and document the categories and subcategories in the nature column of the table.
2. Document the total number of each category and its sub-categories for all audit cycles in the total number columns as reported by AGSA in its reports, note that in some audit cycles the categories might include subcategories that fit the definition of another category in AGSA reports as a results the MIs category totals as per their nature as they appear on AGSA report may differ with the ones documented in table because subcategories should be re-arranged to fit the definition of each nature and added to the relevant category although the overall total remains the same.
3. Document the estimated losses of each category and subcategory provided in AGSA reports for all audit cycles in the estimated losses column rounded to three decimal places for all audit cycles.

4. Do the same for recovered losses and record in the recovered losses column for all audit cycles.
5. Add the totals of all subcategories and check whether they agree with documented totals of all categories in all audit cycles.
6. Tally the totals of the all the categories and document the sum in the relevant column at the end of the table in the total row for all audit cycles.
7. Calculate percentage of the totals of each category and each subcategory by dividing their totals by the totals calculated in procedure 6 and document the results in the relevant percentage column for each audit cycle.
8. Tally the total percentages calculated for all categories and document the total in the total row at the end of the table and make sure that the figure equals 100%.
9. Tally the totals of percentages of all the subcategories, these totals should equal the percentage calculated for main category.
10. Present the results in the format presented in Table 5.6.

TABLE 5.6: Nature of reported material irregularities

NO	NATURE	NO (Procedure 2)				% (Procedure 7)				ESTMATED LOSSES R In Billions (Procedure 3)				RECOVERED LOSSES R In Billions (Procedure 4)			
		18-19	19-20	20-21	21-22	18-19	19-20	20-21	21-22	18-19	19-20	20-21	21-22	18-19	19-20	20-21	21-22
1	PROCUREMENT AND PAYMENT (Procedure 1 (P1): Procedure 5 (P5) & Procedure 9 (P9))	P2	P2	P2	P2	P7	P7	P7	P7	P3	P3	P3	P3	P4	P4	P4	P4
1.1	Uneconomical procurement resulting in overpricing of goods and services procured (P1)	P2	P2	P2	P2	P7	P7	P7	P7	P3	P3	P3	P3	P4	P4	P4	P4
1.2	Non-compliance in procurement processes resulting in overpricing of goods and services procured OR appointed supplier not delivering (P1)	P2	P2	P2	P2	P7	P7	P7	P7	P3	P3	P3	P3	P4	P4	P4	P4

NO	NATURE	NO (Procedure 2)				% (Procedure 7)				ESTMATED LOSSES R In Billions (Procedure 3)				RECOVERED LOSSES R In Billions (Procedure 4)			
		18-19	19-20	20-21	21-22	18-19	19-20	20-21	21-22	18-19	19-20	20-21	21-22	18-19	19-20	20-21	21-22
1.3	Payment for goods or services not received OR of poor quality OR not in line with contract OR to ineligible beneficiaries (P1)	P2	P2	P2	P2	P7	P7	P7	P7	P3	P3	P3	P3	P4	P4	P4	P4
2	RESOURCE MANAGEMENT (P1, P5 & P9)	P2	P2	P2	P2	P7	P7	P7	P7	P3	P3	P3	P3	P4	P4	P4	P4
2.1	Assets not safeguarded resulting in loss (P1)	P2	P2	P2	P2	P7	P7	P7	P7	P3	P3	P3	P3	P4	P4	P4	P4
2.2	Inefficient use of resources - No or limited benefit derived for money spent (P1)	P2	P2	P2	P2	P7	P7	P7	P7	P3	P3	P3	P3	P4	P4	P4	P4
3	REVENUE MANAGEMENT (P1, P5 & P9)	P2	P2	P2	P2	P7	P7	P7	P7	P3	P3	P3	P3	P4	P4	P4	P4

NO	NATURE	NO (Procedure 2)				% (Procedure 7)				ESTMATED LOSSES R In Billions (Procedure 3)				RECOVERED LOSSES R In Billions (Procedure 4)			
		18-19	19-20	20-21	21-22	18-19	19-20	20-21	21-22	18-19	19-20	20-21	21-22	18-19	19-20	20-21	21-22
		3.1	Revenue not billed (P1)	P2	P2	P2	P2	P7	P7	P7	P7	P3	P3	P3	P3	P4	P4
3.2	Debt not recovered (P1)	P2	P2	P2	P2	P7	P7	P7	P7	P3	P3	P3	P3	P4	P4	P4	P4
3.3	Receipts not recorded/deposited (P1)	P2	P2	P2	P2	P7	P7	P7	P7	P3	P3	P3	P3	P4	P4	P4	P4
4	INTEREST AND PENALTIES(P1, P5 & P9)	P2	P2	P2	P2	P7	P7	P7	P7	P3	P3	P3	P3	P4	P4	P4	P4
4.1	Payments not paid timely resulting in interest standing time and penalties (P1)	P2	P2	P2	P2	P7	P7	P7	P7	P3	P3	P3	P3	P4	P4	P4	P4

NO	NATURE	NO (Procedure 2)				% (Procedure 7)				ESTMATED LOSSES R In Billions (Procedure 3)				RECOVERED LOSSES R In Billions (Procedure 4)			
		18-19	19-20	20-21	21-22	18-19	19-20	20-21	21-22	18-19	19-20	20-21	21-22	18-19	19-20	20-21	21-22
4.2	Tax not paid on time (PAYE & VAT) (P1)	P2	P2	P2	P2	P7	P7	P7	P7	P3	P3	P3	P3	P4	P4	P4	P4
5	FRAUD AND COMPLIANCE (P1, P5 & P9)	P2	P2	P2	P2	P7	P7	P7	P7	P3	P3	P3	P3	P4	P4	P4	P4
5.1	Suspected fraud resulting in loss (P1)	P2	P2	P2	P2	P7	P7	P7	P7	P3	P3	P3	P3	P4	P4	P4	P4
5.2	Non-compliance resulting in penalties (P1)	P2	P2	P2	P2	P7	P7	P7	P7	P3	P3	P3	P3	P4	P4	P4	P4
6	MISUSE OF PUBLIC RESOURCES (P1, P5 & P9)	P2	P2	P2	P2	P7	P7	P7	P7	P3	P3	P3	P3	P4	P4	P4	P4
6.1	Under-utilisation of a material public resource (P1)	P2	P2	P2	P2	P7	P7	P7	P7	P3	P3	P3	P3	P4	P4	P4	P4

NO	NATURE	NO (Procedure 2)				% (Procedure 7)				ESTMATED LOSSES R In Billions (Procedure 3)				RECOVERED LOSSES R In Billions (Procedure 4)			
		18-19	19-20	20-21	21-22	18-19	19-20	20-21	21-22	18-19	19-20	20-21	21-22	18-19	19-20	20-21	21-22
7	HARM TO PUBLIC(P1, P5 & P9)	P2	P2	P2	P2	P7	P7	P7	P7	P3	P3	P3	P3	P4	P4	P4	P4
7.1	Non submission of financial statements(P1)	P2	P2	P2	P2	P7	P7	P7	P7	P3	P3	P3	P3	P4	P4	P4	P4
TOTAL (Procedure 5, Procedure 6, & Procedure 8)																	

(b). Procurement and payment category

The aim of performing this analysis is to observe the progress made when resolving corruption related MIs indicated by recovered losses over the period of the research. This is done to check whether there are any positive outcomes that may indicate that corruption is curbed through recovered losses. This is important for the research as it identifies the estimated losses, recovered losses, the number of MIs in which losses were recovered and the amounts of losses not yet recovered. To achieve this objective information pertaining to MIs belonging to the procurement and expenditure category is extracted from the PFMA report and the MIs Report to identify procurement and payment category together with its subcategories for all audit cycle for the analysis. This information is summarised to account for the overall total of the main category cascaded to its subcategory, the total estimated losses and total recovered losses for each audit cycle.

To conduct this analysis the following procedures are performed:

11. For the main category and its subcategories record the total number, the estimated loss and the percentage as calculated in table 6.6 in the first columns of table 6.7 for all audit cycles.
12. Review the AGSA reports and identify the exact MIs reports where losses were recovered for each subcategory and record the total recovered and the total number of MIs reports with recovered losses in the relevant column for all audit cycles.
13. Add the totals calculated in procedure 12 to find the total number and total recovered losses of the main category of MIs and record the totals in the relevant columns for all audit cycles.
14. Calculate the difference between total numbers of MIs reports and the total of MIs reports with recovered losses to find the total of MIs with no losses recovered and record the difference in the relevant column for all audit cycles.

15. Calculate the difference between estimated losses and recovered losses to find the total of losses not recovered for the category and its subcategories record the difference in the relevant column for all audit cycles
16. Calculate loss proportions of category and sub-categories which are recovered and not recovered by dividing their totals with the total estimated losses for each category or sub-category in each audit cycle and record the percentage in the percentage column.
17. Present the results in the format presented in Table 5.7.

TABLE 5.7: Procurement and payment category

PROCUREMENT AND PAYMENT	2018-19			2019-20			2020-21			2021-22		
	No	Amount	%	No	Amount	%	No	Amount	%	No	Amount	%
ESTIMATED LOSSES(Procedure 11 (P11))	P11	P11	P11	P11	P11	P11	P11	P11	P11	P11	P11	P11
RECOVERED LOSSES(P11)	P13	P13	P16	P13	P13	P16	P13	P13	P16	P13	P13	P16
LOSSES NOTRECOVERED(P11)	P14	P15	P16	P14	P15	P16	P14	P15	P16	P14	P15	P16

PROCUREMENT PAYMENT	AND	2018-19			2019-20			2020-21			2021-22		
ESTIMATED LOSSES(P11)		P11	P11	P11	P11	P11	P11	P11	P11	P11	P11	P11	P11
RECOVERED LOSSES(P11)		P12	P12	P16	P12	P12	P16	P12	P12	P16	P12	P12	P16
LOSSES NOTRECOVERED(P11)		P14	P15	P16	P14	P15	P16	P14	P15	P16	P14	P15	P16
ESTIMATED LOSSES(P11)		P11	P11	P11	P11	P11	P11	P11	P11	P11	P11	P11	P11
RECOVERED LOSSES(P11)		P12	P12	P16	P12	P12	P16	P12	P12	P16	P12	P12	P16
LOSSES NOTRECOVERED(P11)		P14	P15	P16	P14	P15	P16	P14	P15	P16	P14	P15	P16
ESTIMATED LOSSES(P11)		P11	P11	P11	P11	P11	P11	P11	P11	P11	P11	P11	P11
RECOVERED LOSSES(P11)		P12	P12	P16	P12	P12	P16	P12	P12	P16	P12	P12	P16
LOSSES NOTRECOVERED(P11)		P14	P15	P16	P14	P15	P16	P14	P15	P16	P14	P15	P16

(c). Loss recovery on procurement and payment category

The aim of conducting this analysis is to breakdown recovered losses identified in the previous analysis from each MI report in the category related to corruption and determine the proportion of the total estimated losses that are actually recovered and that, which remains unrecovered from all the MIs with recovered losses. This is important for the research as it shows the progress made when recovering losses incurred due to occurrence of corruption related MIs. To achieve this objective information for each MIs report with recovered losses belonging to the selected category is extracted from the AGSA PMFA reports and MIs reports for all audit cycles. For each of these MIs the total estimate losses, and recovered losses are identified. Unrecovered losses are calculated and recovery percentages are also calculated to determine the loss recovery rate.

To conduct this analysis the following procedures are performed:

18. Review AGSA reports and identify specific MI reports in the procurement and payment category with recovered losses for the period under review.
19. Document the reporting date, the total estimated losses, and the total recovered losses in the relevant column.
20. Calculate unrecovered losses by subtracting the total recovered losses from the total estimated losses and record the total in the unrecovered losses column.
21. Calculate the recovered losses proportion of the total estimated losses of each MI reported by dividing the recovered losses amount by the total estimated losses of each MI and record the percentage in the percentage column of recovered losses.

22. Calculate the unrecovered proportion of the total estimated losses of each MI reported by dividing the unrecovered losses amount of each MI by the estimated losses of each MI and record the percentage in the percentage column of unrecovered losses.
23. Tally the total of the estimated losses, recovered losses and unrecovered losses columns and record the total in the last row of table.
24. Perform procedure 21 and 22 for the calculated totals and record results in the relevant column in the total row at the end of the table.
25. Verify whether the total of recovered losses agree with the figure provided in table 6.7 for correctness.
26. Present the results in the format provided in Table 5.8.

TABLE 5.8: Loss recovery on procurement and payment category

DATE REPORTED	NATURE (Procedure 18)	TOTAL ESTIMATED LOSSES (Procedure 19)	TOTAL RECOVERED (Procedure 19 & 21)		UNRECOVERED LOSSES (Procedure 20 & 22)	
			Amount	% of total estimated losses	Amount	% of total estimated losses
P19	P18	P19	P19	P21	P20	P22
P19	P18	P19	P19	P21	P20	P22
TOTAL (Procedure 23, 24 & 25)		P23	P23	P24	P23	P24

(d). Actions taken to address corruption-related material irregularities

The aim of conducting this analysis is to observe the progress made in actions taken to resolve corruption-related MIs. This progress indicates the contribution made by both the AGSA and the auditees towards curbing corruption as the PAAA is implemented. This is important for the research as it answers the last research question, determines whether the PAAA may be contributing towards curbing corruption, and in reducing the expectation gap. To achieve this objective procurement and payment

MIs category information is extracted from the AGSA PMFA reports and MIs reports for all audit cycles to identify actions taken to address the procurement and payment category. The analysis may reveal whether the MIs related to corruption are resolved and appropriate actions are taken to resolve MIs. Furthermore it may also indicate the role played by other investigative bodies in curbing corruption.

To conduct this analysis the following procedures are performed:

27. Identify and document the total number of MIs related to corruption at the beginning of each audit cycle.

28. Identify and document the total number of new MIs issued during each audit cycle.

29. Add new MI issued during each audit cycle with the balance at the beginning of each audit cycle to get accumulated total for each audit cycle.

30. Calculate the proportion of accumulated total for each audit cycle which was issued during the year and that which was the balance at the beginning of the audit cycle using the following formulas and record percentage in the percentage column for all audit cycle;

- Proportion of accumulated MIs which was not issued during the year = $\frac{\text{total accumulated for the year}}{\text{balance at the beginning of the audit cycle}}$
- Proportion of accumulated MIs issued during the year = $\frac{\text{total accumulated for the year}}{\text{new MIs issued during the audit cycle}}$

31. Calculate the accumulating rate of MIs per audit cycle by dividing the new MIs issued during the audit cycle by the total of accumulated MIs for each audit cycle record the percentage in relevant columns.

32. From the total of accumulated MIs reports in each audit cycle, identify the type of actions taken to resolve MIs reports as reported in AGSA reports and record these types of actions in column 1.
33. Add the number of MIs reports with similar types of actions taken to address them and record calculated totals in the relevant columns for all audit cycles.
34. Tally the total of actions taken to address unresolved MIs for each audit cycle and record the total in the total of actions taken row.
35. Calculate the balance of unresolved MIs at the end of each audit cycle to be carried forward to the next audit cycle by subtracting total of actions taken from the total accumulated MIs for the all audit cycle.
36. Calculate the proportion of the total accumulated MIs in each audit cycle relevant to each type of action taken by dividing the total of each type of actions taken with the total of accumulated MIs for each audit cycle and record the percentage in the relevant percentage column.
37. Calculate the balance of unresolved MIs at the end of the audit cycle by subtracting MIs resolved during the audit cycle from the accumulated total of MIs. This figure must agree with the total number of actions taken for each column.
38. Calculate the overall proportion of the total accumulated MIs in each audit cycle that remains unresolved at the end of the audit cycle by dividing the total at the end of the audit cycle by the total of accumulated MIs and record the percentage on the relevant percentage column for all audit cycles.
39. Present the results in the format presented table 5.9.

TABLE 5.9: Addressing corruption related material irregularities

PROCUREMENT AND PAYMENT	2018-19		2019-20		2020-21		2021-22	
	NO	%	NO	%	NO	%	NO	%
TOTAL AT BEGINNING OF AUDIT CYCLE (Procedure 27 (P27))	P27	P30	P27	P30	P27	P30	P27	P30
NEW MIS ISSUED DURING AUDIT CYCLE (Procedure 28 (P28))	P28	P30	P28	P30	P28	P30	P28	P30
TOTAL ACCUMULATED MIS FOR THE AUDIT CYCLE (Procedure 29 (29))	P29		P29		P29		P29	
Accumulating rate per audit cycle of the total (Procedure 13 (P31))	P31		P31		P31		P31	
RESOLVED (Procedure 32 (P32))	P33	P36	P33	P36	P33	P36	P33	P36
APPROPRIATE ACTIONS (P32)	P33	P36	P33	P36	P33	P36	P33	P36
RECOMMENDATIONS (P32)	P33	P36	P33	P36	P33	P36	P33	P36

REFERRALS (P32)	P33	P36	P33	P36	P33	P36	P33	P36
REMEDIAL ACTIONS (P32)	P33	P36	P33	P36	P33	P36	P33	P36
FOLLOW UP ASSESSMENTS (P32)	P33	P36	P33	P36	P33	P36	P33	P36
CERTIFICATES OF DEBT (P32)	P33	P36	P33	P36	P33	P36	P33	P36
Total of actions taken (Procedure 33 (P33): Procedure 37 (36))	P34		P34		P34		P34	
TOTAL AT END OF AUDIT CYCLE	P35	P38	P35	P38	P35	P38	P35	P38

APPENDIX 2: Nature of reported material irregularities

REFERENCED TABLE 6.6 – Nature of reported material irregularities

TABLE 6.6: Nature of reported material irregularities

NO	NATURE	REFERENCES	NO				%				ESTIMATED LOSSES R In Billions				RECOVERED LOSSES R In Billions			
			18-19	19-20	20-21	21-22	18-19	19-20	20-21	21-22	18-19	19-20	20-21	21-22	18-19	19-20	20-21	21-22
			1	PROCUREMENT AND PAYMENT		25	53	76	106	89%	67%	63%	59%	2.7	4.651	0.643	3,1	0
1.1	Uneconomical procurement resulting in overpricing of goods and services procured (PPC3)	AGSA, 2019b:28, AGSA, 2021a:221, AGSA, 2021f:1, AGSA, 2022f:12, AGSA, 2022f:45	11		7	7	39%		6%	4%	0.438		0.017	0.0013	0			0.0005
1.2	Non-compliance in procurement processes resulting in overpricing of goods and services procured OR appointed supplier not delivering (ppC2)	AGSA, 2019b:28, AGSA, 2020a:33, AGSA, 2021a:221, AGSA, 2021f:1, AGSA, 2022f:12, AGSA, 2022f:42, AGSA, 2022f:46, AGSA, 2022f:49, AGSA, 2022f:54, AGSA, 2022f:76, AGSA, 2022f:87, AGSA, 2022f:96, AGSA, 2022f:104, AGSA, 2022f:110	1	29	29	33	4%	46%	24%	18%	2.2	3.204	0.460	2,384	0			-
1.3	Payment for goods or services not received OR of poor quality OR not in line with contract OR	AGSA, 2019b:28, AGSA, 2020a:33, AGSA, 2021a:221, AGSA, 2021f:1, AGSA, 2022f:12, AGSA, 2022f:31, AGSA, 2022f:32, AGSA, 2022f:36, AGSA, 2022f:40, AGSA,	13	24	40	66	46%	21%	33%	37%	0.063	1.447	0.166	0.734	0			0.037

NO	NATURE	REFERENCES	NO				%				ESTIMATED LOSSES R				RECOVERED LOSSES R			
											In Billions				In Billions			
			18-19	19-20	20-21	21-22	18-19	19-20	20-21	21-22	18-19	19-20	20-21	21-22	18-19	19-20	20-21	21-22
	to ineligible beneficiaries (PPC1)	2022f:43, AGSA, 2022f:48, AGSA, 2022f:58, AGSA, 2022f:61, AGSA, 2022f:65, AGSA, 2022f:66, AGSA, 2022f:67, AGSA, 2022f:68, AGSA, 2022f:70, AGSA, 2022f:79, AGSA, 2022f:81, AGSA, 2022f:83, AGSA, 2022f:88, AGSA, 2022f:91, AGSA, 2022f:94, AGSA, 2022f:101, AGSA, 2022f:102, AGSA, 2022f:105, AGSA, 2022f:106, AGSA, 2022f:107, AGSA, 2022f:109																
2	RESOURCE MANAGEMENT			7	15	20		5%	12%	11%		0.287	0.869	0.796	0			0.004
2.1	Assets not safeguarded resulting in loss	AGSA, 2020a:33, AGSA, 2021a:221, AGSA, 2021f:1, AGSA, 2022f:12, AGSA, 2022f:36		1	2	2		1%	2%	1%		0.002	0.002	0.002	0			-
2.2	Inefficient use of resources - No or limited benefit derived for money spent	AGSA, 2020a:33, AGSA, 2021a:221, AGSA, 2021f:1, AGSA, 2022f:12, AGSA, 2022f:48, AGSA, 2022f:76, AGSA, 2022f:77, AGSA, 2022f:78, AGSA, 2022f:79, AGSA, 2022f:87, AGSA, 2022f:90, AGSA, 2022f:98		6	13	18		4%	11%	10%		0.285	0.868	0.794	0			0.004
3	REVENUE MANAGEMENT			4	6	7		26%	5%	4%		1.762	0.455	0.292		0.323		
3.1	Revenue not billed	AGSA, 2020a:33, AGSA, 2021a:221, AGSA, 2021f:1, AGSA, 2022f:12, AGSA, 2022f:48		2	2	2		10%	2%	1%		0.666	0.346			0.323		

NO	NATURE	REFERENCES	NO				%				ESTIMATED LOSSES R				RECOVERED LOSSES R			
											In Billions				In Billions			
			18-19	19-20	20-21	21-22	18-19	19-20	20-21	21-22	18-19	19-20	20-21	21-22	18-19	19-20	20-21	21-22
3.2	Debt not recovered	AGSA, 2020a:33, AGSA, 2021a:221, AGSA, 2021f:1, AGSA, 2022f:12, AGSA, 2022f:52		2	3	4		16%	2%	2%		1.096	0.109	0.292				-
3.3	Receipts not recorded/deposited	AGSA, 2022f:12			1	1			1%	1%				-				-
4	INTEREST AND PENALTIES		3	11	19	31	11%	2%	16%	17%	0.106	0.151	0.128	0.249	0	0		-
4.1	Payments not paid timely resulting in interest, standing time and penalties	AGSA, 2020a:33, AGSA, 2019b:28, AGSA, 2021a:221, AGSA, 2021f:1, AGSA, 2022f:12, AGSA, 2022f:30	3	11	19	22	11%	2%	16%	12%	0.106	0.151	0.110	0.055	0	0		-
4.2	Tax not paid on time (PAYE & VAT)	AGSA, 2022f:12				9				5%			0.018	0.194				-
5	FRAUD AND COMPLIANCE				5	5			4%	3%			0.002	0.029				0.0002
5.1	Suspected fraud resulting in loss	AGSA, 2021a:221, AGSA, 2021f:1, AGSA, 2022f:12, AGSA, 2022f:30			2	3			2%	2%				0.007				0.0002
5.2	Non-compliance resulting in penalties	AGSA, 2021a:221, AGSA, 2021f:1, AGSA, 2022f:12, AGSA, 2022f:50			3	2			2%	1%			0.002	0.022				-

NO	NATURE	REFERENCES	NO				%				ESTIMATED LOSSES R In Billions				RECOVERED LOSSES R In Billions				
			18-19	19-20	20-21	21-22	18-19	19-20	20-21	21-22	18-19	19-20	20-21	21-22	18-19	19-20	20-21	21-22	
6	MISUSE OF PUBLIC RESOURCES					1				1%									
6.1	Under-utilisation of a material public resource	AGSA, 2022f:12				1				1%									
7	HARM TO PUBLIC					9				5%									
7.1	Non submission of financial statements	AGSA, 2022f:12				9				5%									
	TOTAL		28	75	121	179	100%	100%	100%	100%	2.807	6.851	2.097	4,484		0.323			0.041

(Source: PFMA Consolidated report for national and provincial audit outcome - 2018-19, 2019-20, 2020-21 & 2021-22, Annexure 1 – 2018-19, 2019-20, 2020-21, & 2021-22, Annexure 5 - 2020-21, & Material Irregularities in National and Provincial Government: Status at 15 April 2022, & 30 September 2022)

APPENDIX 3: Procurement and payment

REFERENCED Table 6.7 – Procurement and payment category

TABLE 6.7: Procurement and payment category

PROCUREMENT AND PAYMENT	REFERENCES	2018-19			2019-20			2020-21			2021-22		
		NO	AMOUNT	%	NO	AMOUNT	%	NO	AMOUNT	%	NO	AMOUNT	%
ESTIMATED LOSSES	AGSA, 2019b:28, AGSA, 2020a:33, AGSA, 2021a:221, AGSA, 2021f:1, AGSA, 2022f:12	25	2,700,600,000	89%	53	4,651,000,000	67%	76	642,900,000	63%	106	3,119,170,000	59%
RECOVERED LOSSES	AGSA, 2019b:28, AGSA, 2020a:33, AGSA, 2021a:221, AGSA, 2021f:1, AGSA, 2022f:12	0	-	0%	0	-	0%	0	-	0%	5	37,212,090	1%
LOSSES NO RECOVERED	AGSA, 2019b:28, AGSA, 2020a:33, AGSA, 2021a:221, AGSA, 2021f:1, AGSA, 2022f:12	25	2,700,600,000	100%	53	4,651,000,000	100%	76	642,900,000	100%	101	3,081,957,910	99%
Uneconomical procurement resulting in overpricing of goods and services procured (PPC3)													
ESTIMATED LOSSES	AGSA, 2019b:28, AGSA, 2020a:33, AGSA, 2021a:221, AGSA, 2021f:1, AGSA, 2022f:12	11	438,000,000	39%	0	-	0%	7	16,500,000	6%	7	1,300,000	4%
RECOVERED LOSSES	AGSA, 2019b:28, AGSA, 2020a:33, AGSA, 2021a:221, AGSA, 2021f:1, AGSA, 2022f:12,	0	-	0%	0	-	0%	0	-	0%	1	500,000.00	38%

PROCUREMENT AND PAYMENT	REFERENCES	2018-19			2019-20			2020-21			2021-22		
		NO	AMOUNT	%	NO	AMOUNT	%	NO	AMOUNT	%	NO	AMOUNT	%
	AGSA, 2022f:45												
LOSSES NOT RECOVERED	AGSA, 2019b:28, AGSA, 2020a:33, AGSA, 2021a:221, AGSA, 2021f:1, AGSA, 2022f:12	11	438,000,000	100%	29	-	0%	7	16,500,000	100%	6	800,000	62%
Non compliance in procurement processes resulting in overpricing of goods and services procured OR appointed supplier not delivering (PPC2)													
ESTIMATED LOSSES	AGSA, 2019b:28, AGSA, 2020a:33, AGSA, 2021a:221, AGSA, 2021f:1, AGSA, 2022f:12, AGSA, 2022f:42, AGSA, 2022f:46, AGSA, 2022f:49, AGSA, 2022f:54, AGSA, 2022f:76, AGSA, 2022f:87, AGSA, 2022f:96, AGSA, 2022f:104, AGSA, 2022f:110	1	2,200,000,000	4%	29	3,204,000,000	46%	29	460,100,000	24%	33	2,384,100,000	18%
RECOVERED LOSSES	AGSA, 2019b:28, AGSA, 2020a:33, AGSA, 2021a:221, AGSA, 2021f:1, AGSA, 2022f:12	0	-	0%	0	-	0%	0	-	0%	0	-	0%
LOSSES NOT RECOVERED	AGSA, 2019b:28, AGSA, 2020a:33, AGSA, 2021a:221, AGSA, 2021f:1, AGSA, 2022f:12	1	2,200,000,000	100%	29	3,204,000,000	100%	29	460,100,000	100%	33	2,384,100,000	100%
Payment for goods or services not received OR of poor quality OR not in line with contract OR to ineligible beneficiaries (PPC1)													
ESTIMATED LOSSES	AGSA, 2019b:28, AGSA, 2020a:33, AGSA, 2021a:221, AGSA, 2021f:1, AGSA, 2022f:12, AGSA, 2022f:31, AGSA, 2022f:32, AGSA, 2022f:36, AGSA, 2022f:40, AGSA,	13	62,600,000	46%	24	1,447,000,000	21%	40	166,300,000.	33%	66	733,770,000	37%

PROCUREMENT AND PAYMENT	REFERENCES	2018-19			2019-20			2020-21			2021-22		
		NO	AMOUNT	%	NO	AMOUNT	%	NO	AMOUNT	%	NO	AMOUNT	%
	2022f:43, AGSA, 2022f:48, AGSA, 2022f:58, AGSA, 2022f:61, AGSA, 2022f:65, AGSA, 2022f:66, AGSA, 2022f:67, AGSA, 2022f:68, AGSA, 2022f:70, AGSA, 2022f:79, AGSA, 2022f:81, AGSA, 2022f:83, AGSA, 2022f:88, AGSA, 2022f:91, AGSA, 2022f:94, AGSA, 2022f:101, AGSA, 2022f:102, AGSA, 2022f:105, AGSA, 2022f:106, AGSA, 2022f:107, AGSA, 2022f:109												
RECOVERED LOSSES	AGSA, 2019b:28, AGSA, 2020a:33, AGSA, 2021a:221, AGSA, 2021f:1, AGSA, 2022f:12, AGSA, 2022f:58, AGSA, 2022f:79, AGSA, 2022f:81, AGSA, 2022f:88, AGSA, 2022f:105	0	-	0%		-	0%	0	-	0%	5	36,712,090.	5%
LOSSES NOT RECOVERED	AGSA, 2019b:28, AGSA, 2020a:33, AGSA, 2021a:221, AGSA, 2021f:1, AGSA, 2022f:12	13	62,600,000	100%		1,447,000,000	100.00 %	40	166,300,000	100%	61	697,057,910	95%

(Source: PFMA Consolidated report for national and provincial audit outcome - 2018-19, 2019-20, 2020-21 & 2021-22, Annexure 1 – 2018-19, 2019-20, 2020-21, & 2021-22, Annexure 5 - 2020-21, & Material Irregularities in National and Provincial Government: Status at 15 April 2022, & 30 September 2022)

APPENDIX 4: Ethics Approval

UNISA COLLEGE OF ACCOUNTING SCIENCES RESEARCH ETHICS REVIEW COMMITTEE

Date: 7 December 2022

Dear Mr Asanda Mbengo,

**Decision: Ethics Approval from 6
December 2022 to 5 December
2025**

ERC Reference # :
2022_CAS_039

Name : A Mbengo

Student no: 45050716

Researchers: Mr Asanda Mbengo (45050716@mylife.unisa.ac.za)

Supervisors: Ms Laurene Ferreira (ferrel1@unisa.ac.za)

Ms Elna Germishuys (germima@unisa.ac.za)

Working title of research:
Working title of research:

**Exploring the evolution of external auditing in corporate governance and its role in curbing
corruption in the South African public sector from 2018 to 2022**
~~**Exploring the evolution of external auditing in corporate governance and its role in
curbing corruption in the South African public sector from 2018 to 2022**~~

Qualification: MPhil

Thank you for the application for research ethics clearance by the Unisa College of Accounting Sciences Research Ethics Review Committee for the abovementioned research. **Ethics approval is granted for conceptual research by means of documentary analysis.** The certificate is valid for the period **6 December 2022 to 5 December 2025.**

~~The negligible risk application was approved on 6 December 2022 in compliance with the Unisa Policy on Research Ethics and the Standard Operating Procedure on Research Ethics Risk Assessment.~~

~~The proposed research may now commence with the provisions that:~~

- ~~31. The researcher(s) will ensure that the research project adheres to the values and principles expressed in the UNISA Policy on Research Ethics.~~
- ~~42. Any adverse circumstance arising in the undertaking of the research project that is relevant to the ethicality of the study should be communicated in writing to the CASRERC.~~

UNISA



3. The researcher(s) will conduct the study according to the methods and procedures set out in the approved application.
4. Any changes that can affect the study-related risks for the research participants, particularly in terms of assurances made with regards to the protection of participants' privacy and the confidentiality of the data, should be reported to the Committee in writing, accompanied by a progress report.
5. The researcher will ensure that the research project adheres to any applicable national legislation, professional codes of conduct, institutional guidelines and scientific standards relevant to the specific field of study. Adherence to the following South African legislation is important, if applicable: Protection of Personal Information Act, no 4 of 2013; Children's act no 38 of 2005 and the National Health Act, no 61 of 2003.
6. Only de-identified research data may be used for secondary research purposes in future on condition that the research objectives are similar to those of the original research. Secondary use of identifiable human research data requires additional ethics clearance.
7. No fieldwork activities may continue after the expiry date (**5 November 2025**). Submission of a completed research ethics progress report will constitute an application for renewal of Ethics Research Committee approval.

Note:

*The reference number **2022_CAS_039** should be clearly indicated on all forms of communication with the intended research participants, as well as with the Committee.*

Yours sincerely,

Signature: **Prof Lourens Erasmus**



Chair of CAS RERC

E-mail: erasmlj1@unisa.ac.za

Tel: (012) 429-8844

Signature: **Dr Chisinga Chikutuma**



Head: Office for Graduate Studies
and Research

By delegation from the Executive
Dean: College of Accounting
Sciences

E-mail: chikucn@unisa.ac.za

Tel: (012) 429-3401



APPENDIX 5: Editing Certificate



CAROL JANSEN LANGUAGE EDITING SERVICES

P.O.Box 428

BRONKHORSTSPRUIT

1020

26February 2024

To whom it may concern

Certification of language editing done.

I hereby declare that I have edited the language, grammar, structure and referencing of the dissertation entitled:

"Exploring the evolution of external auditing in corporate governance and its role in containing corruption in the South African public sector from 2018 to 2022."

by Asanda Mbengo

submitted in partial fulfillment of the requirements for the degree
MASTER OF PHILOSOPHY IN ACCOUNTING SCIENCES

In the subject AUDITING at the UNIVERSITY OF SOUTH AFRICA Supervisor: Laurene Ferreira Co-supervisor: Magdalena Germishuysen

I am an experienced language practitioner who has edited many theses and dissertations for Unisa, the Tshwane University of Technology (TUT), and the University of Pretoria.

A handwritten signature in black ink that reads "Carol Jansen".

Carol Jansen

Language practitioner

Cell no: 082 9200312

MA (Linguistics Stellenbosch University)

BEd (Unisa)

Bibl (Hons) (Unisa)

HEd (Unisa)